

John Major

Cross-border
memories

Page 17

Surveys

- Bahrain
- World auto components

Separate sections

FINANCIAL TIMES

Tuesday July 14 1992

EUROPE'S BUSINESS NEWSPAPER

D8523A

Serbs escalate attacks in Bosnia after PM's speech

Serbs stepped up their offensive throughout Bosnia after Serbian prime minister Radovan Karadzic vowed never to cede "one inch of territory" inhabited by Serbs. In the Bosnian capital Sarajevo, the UN said the relief effort to the city hung by a thread. Reports from Gorazde, an east Bosnian town besieged by Serbs for nearly four months, said houses were in flames and the streets littered with corpses. Page 18; PM's pledge, Page 2.

Chinese to buy Cathay stakes Two Chinese companies said they were buying 10 per cent of airline Cathay Pacific from Hongkong and Shanghai Bank for HK\$3.35bn (US\$438m). China National Aviation Corporation and China Travel Service (Holdings) Hong Kong will each take 5 per cent. Page 18; Lex, Page 18

Bush move on uranium President George Bush said the US would stop producing plutonium or highly enriched uranium, the main ingredients of nuclear weapons. His aim is to discourage the further spread of weapons of mass destruction. Page 4; Bush still ahead on foreign policy, Page 8

Boost for Clinton US opinion polls show that Bill Clinton is no longer trailing other presidential contenders. As the Democrats gathered for their Convention, the polls put him level with President George Bush and ahead of Ross Perot. Page 18; Clinton's policy, Page 8

Big Turkish deal Turkish company Birlesim Muhandisler Buroasi signed an \$1.7bn deal with the ex-Soviet republic of Kazakhstan to build a power plant using export revenues from the joint development of an oilfield.

US commercial banks showed signs of recovery, with J.P. Morgan, Chase Manhattan and First Chicago reporting better second-quarter earnings. J.P. Morgan achieved a 67 per cent net profits rise to \$385m. Page 19

Algerian premier called as witness Outgoing prime minister Sid Ahmed Ghozali was summoned to appear as a witness at the trial of Algerian Muslim fundamentalist leaders of the outlawed Islamic Salvation Front.

India's shortlist India has shortlisted British Aerospace of the UK and Dassault-Breguet Aviation of France as candidates for air force jet trainers, defence minister Sharad Pawar said.

Pope undergoes tests Doctors began tests on Pope John Paul, who is in the Gemelli clinic in Rome after complaining of stomach pains.

BTR announces deal The UK-based industrial conglomerate announced a £110m (\$210m) deal to buy Pirelli rubber products business in Germany, Spain and the UK. BTR is also selling a US subsidiary of British engineering group Hawker Siddeley. Page 18

Argentines US credit rating Moody's upgraded Argentina by two notches to B1, four notches below full investment grade. Page 21

Fannie Mae's records The Federation National Mortgage Association, America's biggest residential mortgage lender, reported record profits for the sixth quarter running. It made \$404m between April and June. Page 21

South African protest Ten thousand black South Africans marched peacefully on government buildings in Pretoria as part of the "mass action" campaign to force President F. W. de Klerk to concede majority rule. Page 18

Iraq rejects UN terms Iraq has decided to turn down the UN's latest terms for resuming limited oil exports, says the energy newsletter Middle East Economic Survey. Page 4

Property claim rejected Czech premier Vaclav Klaus said his government would not bow to pressure to return property confiscated from ethnic Germans expelled after the second world war. He said he was disturbed by the backing from some German politicians to claims for the return of Sudetenland property.

Hong Kong airport Britain and China voiced hopes of progress on financing Hong Kong's controversial new airport, which is due for discussion in the colony later this week.

Swiss sell-offs The Swiss army is selling off 500 tonnes of old berets, tunics and trousers for SF1 an item because troop numbers have been cut. Ex-army coats will cost SF5 (\$5.70).

STOCK MARKET INDICES

	STERLING
FTSE 100	2,478.3 (-12.5)
Yield	4.9%
FTSE Eurotrack 100	1,221.63 (-7.51)
FTX All-share	1,187.25 (+0.5%)
FTX World Index	141.48 (+0.5%)
Nikkei	17,291.73 (+18.01)
New York	
Dow Jones Ind Ave	2,327.31 (+6.75)
S&P Composite	414.87 (+0.25)

US CLOSING RATES

	DOLLAR
New York	1.4745 (1.4945)
DM	1.4745 (1.4945)
FF	4.861 (5.0415)
SF	1.3328 (1.353)
Y	124.95 (125.12)
London	
DM	1.4745 (1.4945)
FF	4.861 (5.0415)
SF	1.3328 (1.353)
Y	124.95 (125.12)
S Index	92.2 (92.5)

New York Comex (July) \$343.1 (346.7)

London £346.70 (346.45) Tokyo close Y 121.18

Foreign exchange markets unmoved by John Major's refusal to devalue sterling

Investors show faith in D-Mark

By Philip Stephens and Peter Norman in London and David Buchan in Brussels

other European governments to realign the system. But it was unable to prevent a sharp fall in the pound's value.

The foreign exchange markets were unmoved by Mr Major's rejection in parliament of backbench Tory pressure for a pound devaluation and his promise to bring down UK inflation "to nil if possible".

Instead they bid the D-Mark higher against most leading currencies following reports that this week's meeting of the Bundesbank council was likely to curb growth in German money supply.

Using language designed to emphasise that he was unmoved by criticism from some of his own supporters, Mr Major said:

"It is absolutely imperative that we do not duck the necessity of bringing inflation down to a level below that of our competitors, as low as we can get - to nil if

possible - and seek to keep it there." The ERM, he said, is the cornerstone of that policy.

Further cuts in interest rates would be linked to holding sterling's parity. "When it is appropriate we reduce interest rates. It has to be when it's appropriate - when we can sustain the exchange value of sterling and still reduce interest rates. That is the key part of the decision which we have to make," Mr Major said.

His remarks were later expanded by officials to emphasise that the prime minister regarded sterling's present central rate of DM2.8525 (L1.97) in London as

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NEWS: EUROPE

Tough Italian package impresses currency markets

By Robert Graham in Rome

FINANCIAL markets yesterday reacted positively, if cautiously, to the Italian government's emergency austerity budget announced late on Friday.

The lira improved only slightly against the D-Mark, being quoted at L757.2 against Friday's L757.4. However, it recovered more ground against the other main European currencies. Dealers said they would have liked more concrete moves to cut public spending but were impressed by the fact that the measures were coherent and non-infla-

tory (inflation is running at an annualised 5.7 per cent) and had been put together quickly by Italian standards, in less than a week.

The speed and decisiveness with which Mr Giuliano Amato's government has acted seems to have caught Italians by surprise even though they had been aware tough measures were essential to curb the public sector deficit. The Socialist prime minister has also tried to head off union protest by presenting a socially equitable package. Even so, the net effect of new duties and taxes on property and bank deposits will mean an average increase of

L120,000 (\$104) per month in tax for each household.

The package has sought to find an extra L30,000bn to hold down the public sector deficit to L128,000bn as planned in the original 1992 budget. This will be split more or less equally between cuts and increased revenues. On revenue, the government has opted for measures which are easy to effect and which tax identifiable assets. Thus L11,200bn is expected to come from the unprecedented one-off tax of 6 per 1,000 lire on bank deposits and Post Office savings. The remainder will come in increased property taxes, higher

stamp duties and such measures as raising annual gun permit prices (from L200,000 to L400,000) for Italy's 8m hunters, passports and driving licences (renewed annually).

On spending cuts, more than L1,700bn will come from the defence budget. Other savings will come in freezes in public sector employment, lower transfers to local authorities and reduced calls on social spending via increased employee contributions. Pension reform, gradually raising the retirement age to 65 for men and women through incentives, announced as part of the budget, is likely to have only limited impact

this year. The government will also save money by the removal, effective this week, of guarantees on foreign exchange risk on all public (and some private) foreign loans.

The main uncertainty involves the extent to which privatisation plans can be accelerated to generate income within 1992. As of yesterday IRI, the main state holding company, ENI, the state oil concern, ENEL, the state electricity authority, and INA, the insurance institute, formally became joint stock companies under the tutelage of the treasury as a prelude to privatising up to 45 per cent of their shares. The government

hopes to raise L4,000bn through privatisation by year-end but this may have to come via an advance from a consortium of banks formed to guarantee the share issues.

Before the measures, the public sector deficit was already set to rise to L75,000bn, nearly 11 per cent of GDP. Even if the budget succeeds, it would be surprising if the deficit can be held down to L123,000bn. Also, many of the measures used to generate extra revenue are one-off. To retain credibility, they will have to be part of larger structural reforms attacking the overblown public sector and tax evasion.

Brussels to speed anti-trust probes

By Andrew Hill in Brussels

THE European Commission is planning to speed long-winded anti-trust inquiries by introducing new internally binding deadlines.

Sir Leon Brittan, competition commissioner, said yesterday that a new accelerated procedure for investigations into joint ventures would be introduced from next January 1 at the latest.

Brussels competition authorities are also trying to accelerate state aid inquiries and are considering how to introduce public deadlines for other anti-trust cases, including investigations into cartels and abuses of a dominant position.

As part of what Sir Leon described as a "wide-ranging review of procedures", the Commission will commit itself to sending at least preliminary opinion on joint venture cases "to the companies involved within a few months".

There is little consensus about the usefulness of EC peace conference among the governments of the republics of the former Yugoslavia.

Bosnia's President Alija Izetbegovic, while supporting the Community's efforts, has rejected the plan drawn up in March by Portugal - at that time holding the EC presidency - to divide Bosnia-Herzegovina into cantons.

The Moslem community,

which makes up 44 per cent of Bosnia's 4.3m population, and

which is concentrated in the urban areas, argues that this scheme is a prelude to dividing Bosnia along ethnic lines.

President Franjo Tudjman of Croatia has welcomed the EC's efforts largely because his republic has now been recognised and the peace conference has not yet come to terms with tackling Croatia's involvement in the war in Bosnia; or its treatment of its Serb minority.

Serbia, under President Slobodan Milosevic, believes the EC peace plan for Bosnia-Herzegovina will eventually lead to the annexation by Serbia of eastern Bosnia.

Sir Leon was addressing the Brussels-based Centre for European Policy Studies on the future of competition policy. He said he could "conceive of no development, be it political or economic, that could change our view that [anti-competitive agreements] are contrary to the fundamental aims of the Treaty of Rome". But he added that Community competition policy should remain flexible to changing circumstances.

Looking ahead, Sir Leon said he believed many member states would find themselves obliged to reduce direct subsidies to business because of the constraints of European economic and monetary union.

Leader of Community peace conference says the effort goes on

Carrington denies he plans to quit

By Robert Maufner, Diplomatic Editor, and Judy Dempsey, East Europe Correspondent

LORD CARRINGTON, British chairman of the European Community's peace conference on Yugoslavia, yesterday denied reports he intended to resign from his post.

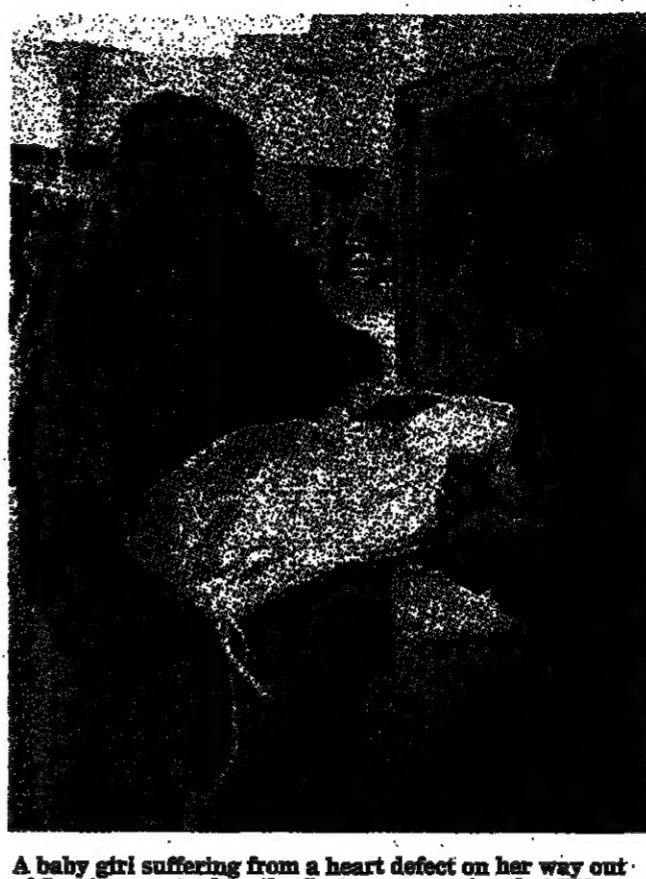
The reports had been fuelled both by a declaration adopted by last week's Group of Seven summit suggesting that a broader international peace conference might be desirable, and a statement last Sunday by Sir John Nott, a former British defence secretary, that Lord Carrington's mission had outlived its usefulness.

"I was asked by the European Community whether I

would do this and I don't think you give up because things have gone very badly, unless those who appointed you want to," Lord Carrington said. If the EC peace mission were to be wound up and the whole process were to start again under the United Nations or another authority, it would not make any difference, he added.

"The problem is that they [the warring parties in Bosnia and other parts of the former Yugoslavia] do not want peace at the moment," he said.

The leaders of the G7 industrial nations and those of the Conference on Security and Co-operation in Europe (CSCE), who met in Helsinki shortly afterwards fully supported the EC conference as the right



A baby girl suffering from a heart defect on her way out of Sarajevo yesterday, the first passenger in what officials hope will become an airlift of the seriously ill.

framework for reaching a durable political solution in the former Yugoslavia. However, their statement on the subject clearly hinted at growing dissatisfaction with the EC forum.

France has been particularly active in canvassing an international peace conference, to the irritation of the British

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government, which has remained loyal to Lord Carrington's mission.

Sir John Nott added grist to the mill when he said that a single country such as the US or France, with its historical links with the region, or possibly the United Nations, would do better at brokering peace negotiations, when the time was ripe.

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However, all large enterprises (employing more than 1,000 workers or with more than Rhsom capital) are now obliged to submit plans by the end of October for transforming themselves into joint stock companies, with their shares initially owned by the state.

Goskomimushchozestvo, the Russian state property agency which is overseeing privatisation, has already prepared model plans for more than 8,000 enterprises. It is also rushing to introduce vouchers and a programme has been passed by parliament.

Privatisation, seen by the government and foreign experts as the core of the

reform programme, has not put down deep roots in any one of the former Soviet republics, in part because of lack of capital, but mainly because of resistance by management and workers, and government fears of unemployment.

It is planned to extend the privatisation of shops and small enterprises, which began early this year in Russia's third largest city, Nizhny Novgorod, to other cities soon, beginning with the southern town of Volgograd. Other cities have been slow to follow the Nizhny experiment - under which shops are auctioned to the highest bidder - but a few have been exiled into experimental with at least small scale capitalism.

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Goskomimushchozestvo, the Russian state property agency which is overseeing privatisation, has already prepared model plans for more than 8,000 enterprises. It is also rushing to introduce vouchers and a programme has been passed by parliament.

Privatisation, seen by the government and foreign experts as the core of the

reform programme, has not put down deep roots in any one of the former Soviet republics, in part because of lack of capital, but mainly because of resistance by management and workers, and government fears of unemployment.

It is planned to extend the privatisation of shops and small enterprises, which began early this year in Russia's third largest city, Nizhny Novgorod, to other cities soon, beginning with the southern town of Volgograd. Other cities have been slow to follow the Nizhny experiment - under which shops are auctioned to the highest bidder - but a few have been exiled into experimental with at least small scale capitalism.

The Russian government now claims it will press ahead regardless of resistance and fears, foreshadowing a prolonged struggle in industry in the second part of the year.

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NEWS: EUROPE

German road users braced for new taxes

By Quentin Peel in Bonn

GERMANY'S car-centred, road-ruled society is working itself up into a state of acute alarm over the prospect of some swinging new taxes and tolls on road users - regardless of denials by the government.

Shares of all the large motor manufacturers lost ground on the Frankfurt stock exchange yesterday, as the rumour mill was kept working by newspaper and television reports on the impending oil products tax increase, and a national road toll.

Porsche lost DM14.50 (55), Daimler-Benz DM11.50, BMW DM9.50 and VW DM8.20.

The speculation has been brought to a head by the imminent decision in the German cabinet on reform of the ailing railway system - the Bundesbahn in the west and the Reichsbahn in the east - and the need to find an important new source of finance to pay off its past debts and current losses.

In spite of the insistence by Chancellor Helmut Kohl and Mr Theo Waigel, his finance minister, that no new tax increases are planned before the next election, press speculation is rife that a big increase in the oil products tax is inevitable.

What is rather more likely is the re-introduction of a road toll, and an autobahn permit for road users, following the rejection by the European Court of Justice this year of a first draft to penalise foreign road hauliers.

Mr Dieter Vogel, the government spokesman, insisted yesterday that no proposals for tax reform were on the agenda for the cabinet meeting tomorrow, when the rail reform plans are due to be decided. He

also underlined that Mr Günther Krause, the minister of transport, was personally opposed to any general oil tax. That was supposed to stoke speculation about an oil tax increase, which would put 10 pfennigs on the price of a litre of petrol, according to the mass circulation *Bild am Sonntag* newspaper.

That would be the equivalent of a 14 per cent rise in the price of the lowest cost grade of petrol.

Mr Krause is on the record, however, as being in favour of re-introducing some form of general road toll.

He said in a weekend interview with *Der Spiegel*, the news magazine, that an autobahn toll for domestic and foreign lorries would probably be introduced by 1993, and for cars by around 1995-96.

He said that the annual toll for lorries would cost up to a maximum DM9,000 as was already intended in the original 1990 proposal outlawed by the EC. Other reports suggest a car tax of between DM200 and DM400.

The question is whether such proposals will come near to meeting the extraordinary needs of the German Bundesbahn, which is this year expected to show a loss of around DM1bn, much of it in interest payments on accumulated debts of around DM45bn. The backlog amounts to twice the Bundesbahn's DM2bn annual turnover.

The reform plan before the cabinet would turn the railways into an independent shareholding company, Deutsche Eisenbahn AG, although not with private shareholders to begin with.

As a result, its accounts would be more transparent, and its staff would cease to be classified as civil servants.

Wholesale prices show slowdown

By Christopher Parkes in Bonn

THE ANNUAL RATE OF increase in German wholesale prices slowed further in June, reinforcing expectations of a fall in consumer price inflation in late summer.

A month-on-month drop in prices of 0.1 per cent translated into a rise in the wholesale price index of only 1.2 per cent, the federal statistics office said yesterday. This followed increases of 2.3 per cent in April and 1.7 per cent in May.

Although welcome, the news failed to override adverse reactions in stock and capital markets to the possibility of further tightening in the Bundesbank's monetary policy later this week.

Concern over runaway money supply growth has for the moment replaced inflation as the main talking point in business and financial circles.

Mr Friedel Neuber, chairman of the WestLB bank, the biggest public sector bank in Germany, said yesterday that a "clear statement" from the Bundesbank after its council meeting on Thursday would help to calm markets. He said he was doubtful that the central bank chief would decide to tighten monetary policy, although some council members are lobbying strongly for moves to deter demand for

services and repairs.

The housing shortage is also forcing up rents at an annual rate of more than 5 per cent, and car running costs are up more than 7 per cent.

Many contributors to the downward trend in wholesale price rises were fresh vegetables, 42 per cent cheaper than a month earlier, and heating oil (off 3.6 per cent).

However, the picture was marred by an 18 per cent rise in the cost of fresh fish and increases in men's clothing and frozen meat.

Spanish inflation rate falls to 6.2%

By Peter Bruce in Madrid

SPAIN'S consumer price index was static in June, providing a welcome respite for the country's hard-pressed economic managers, who are busy preparing a series of tough measures to clamp down on public spending.

Last month's pause in inflation draws annualised inflation down from 6.5 per cent to 6.2 per cent. The annual figure has risen as high as 6.9 per cent this year, after ending 1991 at 5.5 per cent. Nevertheless, the Finance Ministry said yesterday it was still concerned that the underlying rate of inflation, a measure which excludes energy and processed foods prices, had fallen only slightly, to an annualised 6.7 per cent in June.

The June figures, nevertheless, lend weight to the government's arguments that it is, indeed, capable of slowing inflation despite the fast

growth in prices in the early part of the year. These were due partly to the imposition of new value added tax charges in January.

Nevertheless the government is likely to adopt measures before the end of this month to combat a 55 per cent increase in the public-sector deficit in the first five months of the year and a rise of more than 65 per cent in the current-account deficit.

The economy grew only 2.3 per cent in the first quarter, its poorest performance since 1980.

Mr Carlos Solchaga, the finance minister, seems likely to bring forward a VAT increase from 13 per cent to 15 per cent planned for next year and to raise taxes withheld on income, as well as to make sweeping cuts in public spending budgets not already committed for 1992. He is then likely to produce a tight 1993 budget of 6.7 per cent in

Paris cinemas fear new wave of competition

The expansion of French cinema chains is posing a threat to the independents, writes Alice Rawsthorn

FOR THE past few weeks the film buffs of Paris have been queuing patiently - and not so patiently - on the Place d'Italie to visit the Gaumont Grand Ecran, the city's newest cinema and the biggest single screen in the French capital.

There will be yet another brand new cinema to try out from tomorrow when Le Dôme Imax opens its doors at La Défense in western Paris. At a time when the Hollywood studios are struggling and the British film industry is on its knees, the launch of not one but two new screens in Paris could be seen as a symbol of French cinema's success.

But the expansion of the big French cinema chains, owner poses a growing threat to the dozens of tiny independent cinemas in the Latin Quarter play crackly prints of esoteric art films to packed houses. This summer's retrospective of the films of John Cassavetes, the US director, is the most successful revival ever in Paris.

The reason why there are so many films is simple - Paris has lots of cinemas, 450 to be precise. The proliferation of independent means that even the most obscure new movies usually open on at least three screens. The purist film fends rarely stray from the Latin Quarter art houses. The less ascetic are tempted away to

European Diary



France

more exotic screens such as La Pagode, a Japanese pagoda imported to France in the 1920s and converted into a cinema in the 1930s, or Le Grand Rex on Boulevard Poissonnière, where images of clouds are projected on to the star-spangled ceiling.

For years the art houses have co-existed comfortably with the big commercial chains, thanks to the support of the sympathetic Socialist government, whose long-serving arts minister, Mr Jack Lang, is an ardent cinema fan.

Mr Lang has long believed that it is impossible to have a healthy domestic film industry without an adequate distribution system. One of his first initiatives as arts minister in 1982 was to split up GIE, then France's biggest single cinema chain, into two networks, Gaumont and Pathé.

The two new chains, together with UGC, the other big French network, have since been forced to compete for films.

Given that there is only a limited number of Hollywood movies to go round, this competition has created more room for independent productions on the commercial chains and has alleviated the pressure on the art houses.

But earlier this year Gaumont struck a deal to swap a



Arts minister Jack Lang is concerned about fate of independents

string of its provincial cinemas for the Paris screens owned by Pathé. This means that Gaumont, which now has 19 cinemas with 79 screens in the capital, is once again the dominant chain in the capital, with UGC as its only serious rival.

The cynics in French film circles claim that Gaumont's growth has already had an effect. Gaumont and UGC, they say, are allocating too many screens to Hollywood blockbusters. The most widely distributed films in Paris this week, *Basic Instinct* and *Beethoven*, are both showing on almost 20 screens. There are fears that this situation will worsen next year when Gaumont starts to act as the exclusive French distributor for Disney, the US film studio.

Another concern is that distribution is becoming increasingly difficult for independent film makers. Mr Serge Toublana, editor of *Cahiers du Cinéma*, the film magazine, recently wrote an article in *Libération* newspaper describing the problems faced by Mr Danièle Dubroux, a young French director, in finding a cinema to show *Borderline*, his latest film.

Mr Lang's Arts Ministry has voiced its concern, as has the French film producers' association. Mr Michael Sapin, the finance minister, last week took action by referring the Gaumont/Pathé deal to the Conseil de la Concurrence, the competition authority, for retrospective investigation.

He also warned that he would be keeping a sharp eye on similar transactions in the future.

Meanwhile, the big French cinema chains are intent on becoming even bigger. UGC is now building the capital's first multi-screen cinema complex.

Gaumont is renovating four of its Paris cinemas as part of a £20m programme. For better or worse, the era of the Grand Ecran has begun in Paris.

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NEWS: INTERNATIONAL

State government has flouted court orders, says interior minister

New Delhi defied on Hindu temple

THE government of Uttar Pradesh had flouted court orders by allowing building of a Hindu temple to start near a 16th-century mosque, India's interior minister said yesterday. Reuter reports from New Delhi.

The government of Uttar Pradesh has violated the court orders by permitting the work to be carried on, on land acquired by the state," Mr Shankar Chavan told parliament.

He was referring to a 1989 court order which prohibits any construction near the mosque, in the city of Ayodhya, until the dispute is resolved.

Last week, the supreme court admitted a writ petitioning against the construction. A hearing is set to begin this week.

The final decision of the supreme court will have to be awaited," Mr Chavan told a noisy Lok Sabha (lower house).

Hindu militants began building the temple last week, reopening a dispute which has led to more than 2,000 deaths during the past three years. The issue has been dormant for the past six months.

Hindus say the mosque is built over the birthplace of the venerated god-king Rama. Muslims say there is no evidence to back the claim.

Uproar broke out in parliament on Friday when left-wing and centrist opposition groups blocked proceedings, demanding dismissal of the Uttar Pradesh government in an attempt to stop the construction work.

The right-wing Hindu revivalist Bharatiya Janata party (BJP), which rules Uttar Pradesh, has said any attempt to destabilise the state government will lead to political turmoil.

The party is the largest opposition group in the Indian parliament.

Mr Chavan said he had appealed to the state government to stop building the temple immediately and wait for the supreme court verdict.

"I have tried to use all persuasive rea-



Militant Hindus perform voluntary construction work on the disputed temple.

sioning with the chief minister of Uttar Pradesh to have the construction suspended," he declared.

Political analysts say the issue has put Prime Minister Narasimha Rao's minority

Congress government in a quandary. They say any serious action to halt the construction work could spark a political and law-and-order crisis, and a delay could attract charges of collusion with the BJP.

BOMBAY, Madras and Calcutta brokers demanded immediate action on disputed shares after exposure of the Rs3.5bn (263.6m) Bombay financial scandal. A cut-off date, to be announced by a special court

this week, would allow brokers to change their transfer deeds and help them convert the tainted shares into good shares. "Members are apprehensive that the shares they deal in today may be

tainted tomorrow," said Mr M.R. Mayya, executive director of the Bombay Stock Exchange. He hopes markets will resume trading tomorrow following an informal meeting of stockbrokers this afternoon.

BROKERS DEFANT AS EXCHANGES TRY TO REOPEN

BROKERS throughout India refused to resume trading yesterday after the four main stock exchanges reopened for trading after more than a month. Shiraz Sidhu writes from New Delhi, Delhi.

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Baghdad rejects UN oil terms

THE Iraqi leadership has decided to turn down the latest United Nations terms for the resumption of limited export sales of its oil, the influential energy newsletter Middle East Economic Survey (MEES) said yesterday. Reuter reports from Nicola.

MEES said the decision was reached after several meetings in Baghdad between Mr Tariq Aziz, the deputy prime minister, and the Iraqi negotiators headed by Mr Abdul Amir al-Anbari. Iraq's main objection was to the UN's insistence that oil exports should be channelled through Turkey to the Mediterranean terminal of Ceyhan, rather than through Iraq's Gulf port of Mina al-Bakr.

A compromise deal which would have required Iraq to start exports via Turkey, with the possibility of being permitted to export up to 10 per cent of the allowable volume from Mina al-Bakr, was also rejected by Baghdad. MEES said.

The country's chief delegate to the Middle East peace talks said the "real issue" was Israel's acceptance of United Nations resolutions calling on Israel to withdraw from the occupied territories.

Mr Abdel Salam Majali said:

"I cannot see the point of inviting us to go to Jerusalem before we really see constructive success in the negotiations in the proper place in which we have all agreed to go to."

He added: "Israeli leaders have said this many times but one can see it is just talk."

Jordanian officials said King Hussein would maintain his position of rejecting direct talks with Israel without a settlement on its withdrawal from the West Bank and Gaza strip.

Palestinian officials also said

they were disappointed by Mr Rabin's offer, but said they hoped that the offer signalled that Israel might prove more flexible during the next round of Middle East peace talks.

No immediate reaction was forthcoming from either Lebanon or Syria, but President Hafez al-Assad, the Syrian president, has also professed the utmost resistance to visiting Israel.

The only Arab leader to have made the trip was President Anwar Sadat, the assassinated Egyptian leader, in a gesture which helped forge peace between Cairo and Israel, but which ostracised Egypt from the rest of the Arab world.

Senior Palestinian officials in Amman claimed that despite Mr Rabin's offer to seek a breakthrough in the peace process, the Israeli premier was avoiding what they called the "pre-requisites for peace".

"Our problem with Rabin is that he wants to sell himself as a peacemaker, but he has to prove himself with deeds, not words," said one official.

He said that Palestinian delegation at the peace talks

wished to see Israel first accept in full the Geneva convention, which bans Israel, as an occupying power, from changing the identity of the West Bank and the Gaza strip.

The official said that if Mr Rabin wishes to be serious about peace he must show "genuine readiness" to halt all settlements on the West Bank.

Palestinian officials said that Mr Rabin's offer to talk in neighbouring Arab capitals echoed calls from the previous Likud government for a normalisation of relations between Israel and its Arab neighbours.

However, Palestinian groups and the Arab governments participating in the peace talks insist that Israel must first withdraw from the territories occupied in 1967 before there can be any normalisation of relations.

Arab delegations to the peace talks, Jordan, Syria, Lebanon and the Palestinians, have consistently rejected Israel's call for the talks to be conducted in the region - a move they would interpret as an Israeli breakthrough in normalising relations.

Baker praises quest for progress

AMNESTY International appealed to Indonesia yesterday to prohibit summary executions and torture, which the human rights organisation says are widely used to suppress political dissent. Reuter reports from Jakarta.

The group's report coincides with a meeting of Indonesia's foreign aid donors in Paris this week.

Rwanda fighting

Fighting raged in the tiny central African state of Rwanda as the government and rebels prepared yesterday to sign a ceasefire in the 21-month conflict. Reuter reports from Kigali.

Red Cross plea

The British Red Cross launched a multi-million pound appeal for Somalia yesterday, saying 2m people could starve because of war and famine. Reuter reports from London.

MR James Baker, the US secretary of state, yesterday praised the Israeli prime minister's offer to go to Arab capitals in search of a peace breakthrough. Reuter reports from Washington.

"I think that any time Arab nations and Israel can sit down face to face and talk peace it is a very good thing," Mr Baker said.

Asked if he still intended to proceed with the peace process that the US initiated with a Middle East conference last October, Mr Baker said: "The

point I want to make... is that we should not exclude anything that should lead to peace."

Ms Margaret Tutwiler, the State Department spokeswoman, said the administration was considering sending a senior official to Israel to prepare for a possible visit to Washington by Mr Rabin.

Malawi campaigner sent for trial

MALAWI magistrates' court yesterday charged pro-democracy campaigner Chakufwa Chibana with three counts related to sedition, his lawyer, Mr Bazuza Mhango, said. Reuter reports from Lusaka. The case had been referred to the high court for trial.

"He has been charged with offences relating to sedition, the first one of importing sedi-

tious publications, second, being found in possession of seditious publications and third, preparing an act with seditious intent," Mr Mhango said.

The penalty was a fine equal to \$770 (240S) or a five-year prison sentence.

Mr Chibana, 52, chairman of the Lusaka-based Interim Committee for a Democratic Alliance, was arrested on April 6

when he returned to Malawi from meetings with pro-democracy exiles in Zambia and South Africa.

He was freed after a high court judge granted him bail, the first in Malawi's history of political detentions. Western governments have been pressuring President Kamuzu Banda to allow opposition parties in Malawi.

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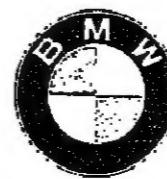
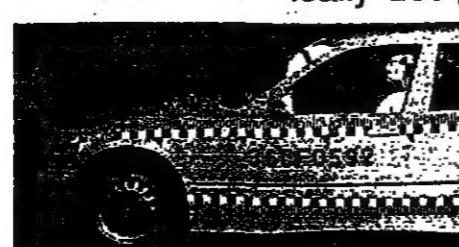
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NEWS: INTERNATIONAL

Japan's trade surplus heads for record

By Robert Thomson in Tokyo

JAPAN'S TRADE surplus for June rose 24 per cent over a year earlier to \$8.97bn (£4.7bn), bringing the surplus for the first six months to \$49bn, the largest recorded for any half-year period.

With the surplus on target to surpass the record annual figure of \$32.7bn in 1986, the Ministry of International Trade and Industry (MITI) will announce a new import promotion campaign later this week.

The campaign is a response to criticism from the US and EC about sluggish Japanese imports. The trend was clearly shown in the first half, when exports rose 8.6 per cent and imports fell 3.3 per cent, leaving a surplus larger than the \$45.5bn recorded in the second half of 1986.

In June, imports were 5.1 per cent higher than a year earlier at \$19.12bn, while exports rose 10.5 per cent to \$28.09bn, reflecting the desire of Japanese companies to increase foreign sales to compensate for lower ones in a slowing domestic economy.

The new import promotion campaign will have little immediate influence on the surplus, as it is designed to encourage foreign investment in Japan and increase imports by setting up provincial trade zones. But Tokyo hopes the surplus has peaked, and pointed to an easing of the seasonally adjusted surplus from \$3.7bn in May to \$7.5bn last month. Seasonally adjusted exports rose 4 per cent on May, with imports 16 per cent higher.

Companies warned to protect environment

By Robert Thomson

A MALAYSIAN court order suspending production at a joint-venture chemical plant of Mitsubishi Kasei, the leading Japanese chemical maker, prompted the Japanese government to warn yesterday that all factories abroad must do no harm to the environment.

The Ipoh High Court decision, including an order to remove radioactive waste from the site, embarrassed Tokyo, which wants to take a lead in environmental issues and has denied claims that Japanese industry is relocating allegedly hazardous factories in poorer countries.

Mitsubishi, with a one-third stake in the Asian Rare Earth facility producing materials for the electronics industry, said it was surprised by the finding and was "studying what action we should take". Japan's ministry of interna-

tional trade and industry (MITI) yesterday discussed the case with Mitsubishi Kasei and issued a formal caution to the company.

MITI officials said all Japanese companies would be urged to ensure foreign investments do not create environmental problems; they would study the Malaysian court decision before deciding on further action in this case.

The court found that suspending production at the plant was necessary to protect people in a village near Ipoh from the waste. Eight had demanded damages and the suspension of production, though the judge rejected the damages claim.

Renewed debate is now expected in Tokyo over legislation scrapped last year that would have demanded Japanese companies abide by strict domestic standards in running their foreign factories.

Putting the generals out of business

Victor Mallet examines efforts to loosen the military's grip on Thailand's economy

THAILAND'S numerous generals have been uncharacteristically quiet since troops shot scores of pro-democracy demonstrators in Bangkok in May, but they now face a batte on two fronts.

Last week the government of Mr Anand Panyarachun, removed their authority to deal with domestic unrest, used repeatedly to enhance their political power.

Since May, pro-democracy campaigners have been demanding the resignation of senior commanders responsible for the shooting. Mr Anand has preferred a more legalistic approach and last week's move is seen as a first step towards reorganising the military.

Yesterday, Mr Anand turned his attention to loosening their grip on the Thai economy by seeking to end the air force chief's automatic right to chair Thai Airways International, the national airline.

Thai Airways International, the national airline, has become the focus of this campaign, both because its chairman is Air Chief Marshal Kaset Rojananil, the air force chief and supreme military commander, and because its poor financial performance suggests soldiers are ill qualified to run a modern business of such size and complexity.

The privatisation of Thai Airways and the impending flotation of 7 per cent of its shares – along with a the decline in tourist arrivals resulting from the violence, for which Air Chief Marshal Kaset is blamed – have also drawn attention to the airline.

Suggested boycotts of Thai Airways and of the Thai Military Bank, a third of which is owned by the armed forces, appear to have generated more talk than action, but the technocrats have found a powerful advocate in Mr Anand, the businessman appointed prime minister in June.

Mr Nukul Prachubmoh, the transport and communications minister, has ordered an inquiry into seven allegations of corruption at the airline, including one about the purchase of Rolls Royce engines for new Boeing 777s and another about the planned purchase of a plot of land from a



THE MILITARY IN BUSINESS

State enterprises dominated by military

- Thai Airways International (air force)
- Telephone Organisation of Thailand (domestic network – army)
- Communications Authority of Thailand (international network – air force)
- Thai Marine Navigation (navy)
- State Electricity of Thailand (state-owned)
- Thai Post (state-owned)

Other interests include:

- Air Chief Marshal Kaset Rojananil's ownership of radio stations and TV channels
- 20% stake in Thailand Tobacco Monopoly, armed forces' 20% stake in Thai Military Bank and cross-border trade in gems and timber

senior air force officer's wife.

Thai Airways has long been the fiefdom of the air force, but Mr Nukul and the finance ministry, which owns 98 per cent of the airline, have now agreed to change the company's articles of association; at present the articles give control of the board to the air force and stipulate that the air force commander automatically becomes chairman.

The combative Mr Nukul has not restricted his efforts to Thai Airways. He is also manoeuvring to dislodge the military from the Telephone Organisation of Thailand and the Communications Authority of Thailand. The first is responsible for the domestic telephone system and is controlled by the army, while the second handles international communications and has until now come under the air force.

Another minister, Mr Mechai Viravadya, is attempting to reform the state-controlled media to ensure objective news coverage. During the violence in May, television and radio

stations owned by the military were sharply criticised for their biased coverage.

Although they intend to reduce the influence of the military in state enterprises, Mr Anand and his cabinet know they will only be able to make a start on removing the generals from their entrenched positions in the Thai economy in the two months before elections in September.

Military commanders justify their dominance of communications and air transport on the grounds of national security – an excuse which has looked increasingly thin since the collapse of Soviet communism – but they are also linked directly or through protection rackets to many different kinds of legal and illegal activities with no relevance to security.

These include the border trade in gems and timber from Cambodia and Burma, the coastal smuggling of diesel from Singapore, gambling, real estate and golf course deals using state property, and the

Thailand Tobacco Monopoly. The Supreme Command declined to answer questions on military involvement in business.

Senior military men have grown exceptionally wealthy from various business interests, but Mr Anand, in trying to nudge them back to the barracks, has deliberately avoided publicly antagonising them.

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Another minister, Mr Mechai Viravadya, is attempting to reform the state-controlled media to ensure objective news coverage. During the violence in May, television and radio

stations owned by the military were sharply criticised for their biased coverage.

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reduce the influence of the military in state enterprises, Mr Anand and his cabinet know they will only be able to make a start on removing the generals from their entrenched positions in the Thai economy in the two months before elections in September.

Mr Anand still has several more sensitive steps to take in order to complete the limited task he has set himself before the September 13 general election.

The decision was described as a matter of compliance with stock market law, but it is clearly part of the proclaimed intention of the prime minister, Mr Anand Panyarachun, to "demilitarise politics" and "decommercialise politics" after the shooting of scores of anti-military protesters in May.

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Thai airline battle looms

By Peter Ungphakorn in Bangkok

THAILAND'S cabinet yesterday decided on first steps to remove Thai Airways International (TAI), the country's flag-carrier, from control of the air force.

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One of the

NEWS: WORLD TRADE

US groups say anti-EC action could hit jobs

By Nancy Dunne in Washington

US IMPORTERS and distributors yesterday told an interagency Bush Administration committee that "1bn (\$221m) in sanctions proposed against EC products would cause widespread US job losses and injury to the US economy."

The prohibitive duties were proposed by Mrs Carla Hills, US trade representative, in retaliation for the failure of the EC to reform "adequately" its subsidies programme for oilseeds.

Her office last month released a proposed "hit list" of imports worth an estimated \$2bn - which includes wine, cheese, biscuits, gin, liqueurs, and tobacco.

If the dispute is not settled in compensation talks - to be held in the General Agreement on Tariffs and Trade through to August 18 - the Administration has threatened to impose sanctions on \$1bn worth of products on the list.

However, officials of companies which have long-established ties with Europe yesterday made clear that any retaliation against the EC would boomerang. The impact would be particularly devastating on the wine, beer and spirits sectors, which are struggling to recover from two big rises in federal excises taxes in the past seven years as well as new state and local taxes.

Turkish group in \$1.7bn Kazakh power plant deal

By John Murray Brown in Istanbul

A TURKISH group yesterday signed a \$1.7bn (\$226m) deal with the government of Kazakhstan to construct a power plant, financing the project by using export revenues from the joint development of a nearby oil field.

United BMB group, a privately-owned Turkish group, and the Kazakh Ministry of Energy agreed a contract to build a 1350MW combined cycle power plant at Aktubinsk in north east Kazakhstan.

Under a countertrade arrangement, the Turks will supply a power plant under turnkey terms, in exchange for the right to a share of the revenues from the export of Kazakh oil. The agreement could set the pace for similar deals in a region rich in resources but in desperate need of infrastructure.

The deal follows a visit by Mr Suleyman Demirel, the Turkish prime minister, to the region earlier this year, and is the first big break for Turkish groups bidding to do business against competition from western and European oil companies.

Officials confirmed the area



Demirel: Kazakhstan visit
under consideration contained recoverable reserves of 800m barrels.

Gatt row brews on Mercosur scrutiny

A ROW is brewing in the General Agreement on Tariffs and Trade (Gatt) on how it should scrutinise Mercosur, the Southern Cone Common Market grouping Argentina, Brazil, Paraguay and Uruguay, writes Frances Williams.

Mercosur says its free trade arrangement should be considered under Gatt's "enabling clause". This allows preferential trade deals between developing countries to be simply notified to Gatt's Committee on Trade and Development, and protects them from challenge by other Gatt members.

But, at today's meeting of the Gatt council, the US will call for a working party on Mercosur under Article 24 of the General Agreement on free trade areas and customs unions. It argues that the size and potential importance of Mercosur, with a population of

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Little sign of a sanctions dividend

Philip Gavith reports that exporters in South Africa will have to remain resilient

SOUTH Africa's renewed descent into political crisis is bad news for exporters facing the prospect of customers and markets more interested in the political, rather than the commercial ramifications of doing business with the country.

However, if the experience of the sanctions era is anything to go by, political opprobrium is something South Africa's exporters do not find too hard. Some is patriotic bluster, to tell the world "you didn't harm us", but there is little expectation of an immediate sanctions dividend. Taking February 1990, when the African National Congress (ANC) was unbanned, as the start of the post-sanctions era, South Africa's merchandise exports grew by 8.4 per cent and 8.3 per cent respectively during 1990 and 1991, whereas growth was 21.25 per cent in three of the previous four years.

Although South African exports may have done well despite the sanctions, the figures do not reveal how much better they might have done under normal circumstances. The main products affected by sanctions were iron and steel, uranium, coal, fruit and textiles. Most of these found alternative markets, affecting

prices, not volumes. About 65 per cent of South Africa's exports are precious and strategic metals - gold, diamonds, platinum, chrome and vanadium - which were virtually sanctions proof. Gold exports in 1991 were R19.7bn, or 26 per cent of the total.

Even exporters of non-strategic goods, such as chemicals and steel, were able to sell all their product during the period. They were not consumer goods requiring conspicuous marketing, and their bulk form meant, if necessary, that their origin could be disguised.

A spokesman for Iscor steel producer, which exports close to 50 per cent of total sales, says that even with US and EC markets closed, it was able to re-route sales to the Pacific Rim and South America.

The figures also reflect the slowdown in world economic growth over the same period. Most South African exports are commodities and particularly vulnerable to such a slowdown being susceptible to price weakness.

Finally, they disguise an important upward trend in manufactured exports, especially in areas such as transport machinery and equipment. Reserve Bank figures show that manufactured

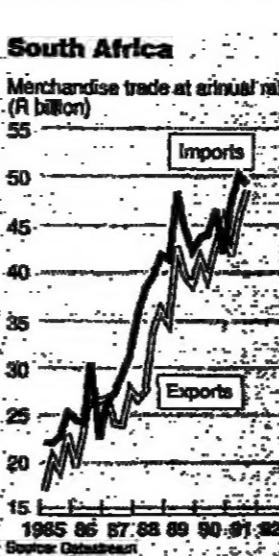
exports, about 20 per cent of total exports, grew by an average 25 per cent per annum during the years 1984 to 1990, the height of the sanctions period. In 1991 they rose by a further 21 per cent.

Initial reasons for this success include the sharp decline of the rand, an average increase of 5 per cent per annum in world trade over the period 1984-90 and slow domestic growth encouraging producers to look for export markets.

It also reflects burgeoning trade with the rest of Africa. Johannesburg bustles with Kenyan and Nigerian businessmen and South Africans themselves are much more welcome, as a recent trade fair in Kenya testifies.

Attributable to the success of the General Export Incentive Scheme (GEIS), introduced in April 1990, which offers more generous subsidies as products move up the value scale.

The trend in manufactured exports needs to be kept in perspective. Many of South Africa's manufactured products are uncompetitive because the country lacks economies of scale and has low labour productivity. For exporters, this means finding niche markets, or selling to countries where



South African goods can compete.

Unsurprisingly, fruit products and wine, freed of market inhibitions, have probably been the main beneficiaries of the removal of most sanctions. Likewise, the discount of \$3-\$5 per tonne on South African coal has largely disappeared, though the depressed state of the market has overshadowed this benefit.

For commodity exporters the benefits of sanctions going will be felt in lower distribution costs and in some cases through the removal of a political discount on their products.

So far, not agree, there has been little direct financial benefit from the lifting of sanctions. Many companies hope to return to their traditional markets, but realising this process takes time. Relationships have to be developed, or renewed, and new entrants, such as Venezuela into the coal market, make competition fiercer.

The beneficial impact of sanctions being lifted may be evident initially not so much in higher sales as in increased capital investment. Although current political uncertainty mitigates against fresh investment, past experience suggests exports will withstand renewed calls for sanctions.

CHINA yesterday announced a \$300m (£156m) order for Rolls-Royce engines and said it was negotiating to buy eight British Aerospace 146 aircraft, writes Alexander Nicoll.

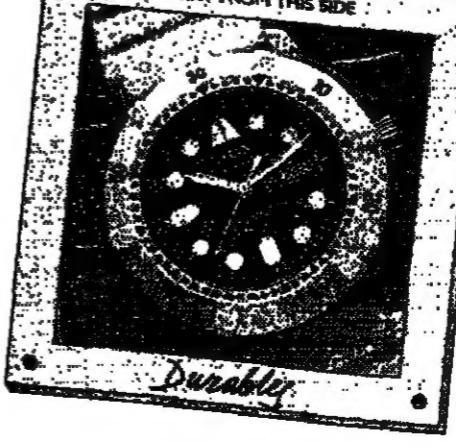
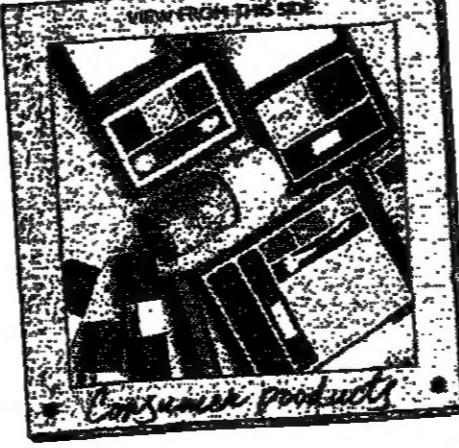
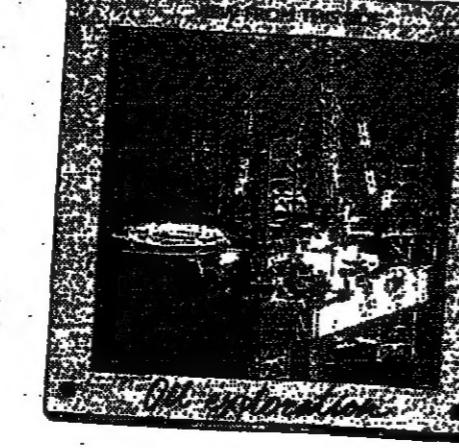
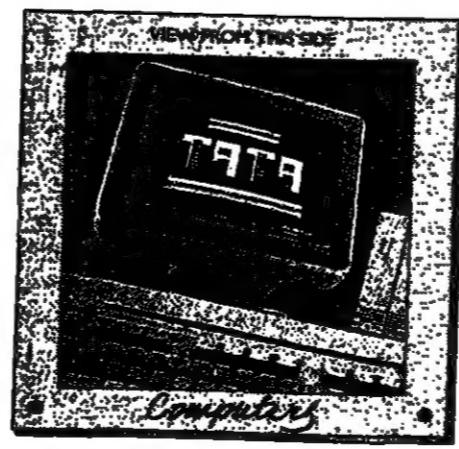
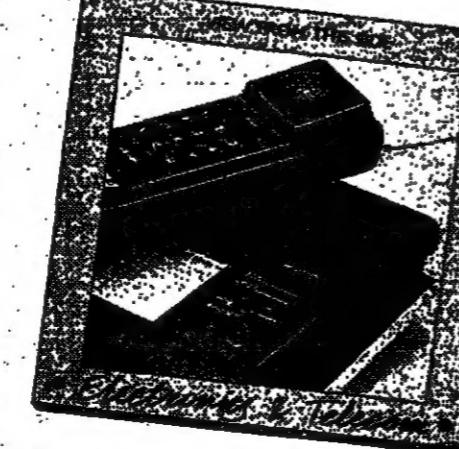
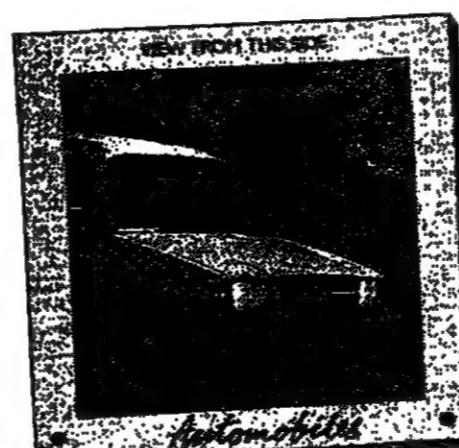
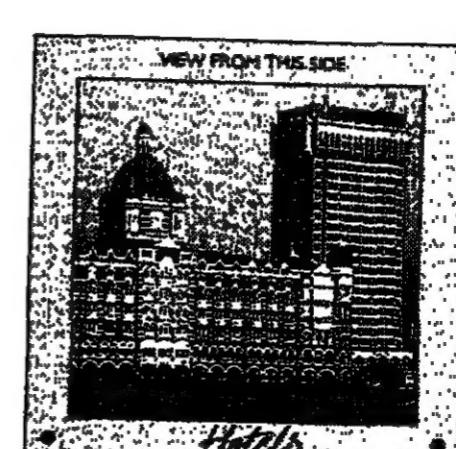
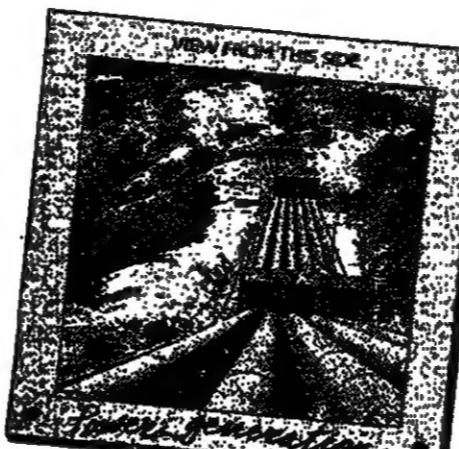
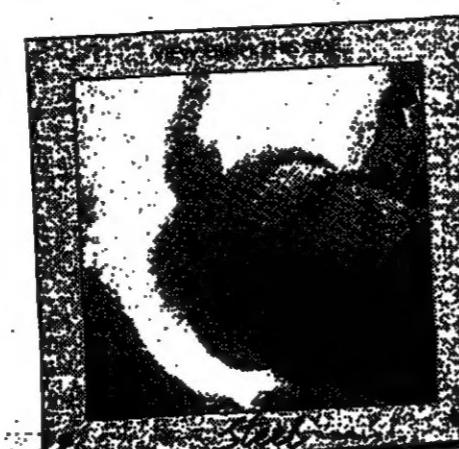
Zhang Yanning, vice minister of the State Council Economic and Trade Office, said a buying mission which he heads has made \$264m of purchases in the UK, and that the BAE order would add a further \$184m.

Mr Richard Needham, minister of trade, is to visit China this month and Mr Michael Heseltine, president of the Board of Trade, will head a large British trade mission to China in October.

• A DM600m (£206m) order for three container ships placed with German yards by Cosco, the Chinese shipping line, will go ahead after the Bonn parliament's decision last month to lift restrictions on development aid for trade with China, writes Andrew Fisher in Frankfurt.

Bremer Vulkan, the west German yard, will build one vessel, with the other two to be built under contract by a yard in Wismar, east Germany.

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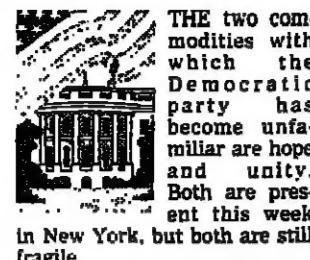
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NEWS: AMERICA

US presidential race heats up as the Democratic party assembles in New York to select its candidate

Unity and hope make a tentative appearance



THE two commodities with which the Democratic party has become unfamiliar are hope and unity. Both are present this week in New York, but both are still fragile.

Not since 1964 has the party held what might be described as a confident convention. Even in New York in 1976, the precursor of the last presidential election victory, the hierarchy's suspicions about the insurgent southern candidacy of Mr Jimmy Carter were only partly allayed by the selection of a party stalwart, Mr Walter Mondale, as running mate.

The 1968 convention in Chicago was a disaster. The assassination of Robert Kennedy, the likely nominee, split the party and the anti-Vietnam war protests in the streets outside were the worst backdrop imaginable.

In 1972 in Miami, procedural wrangling meant that Mr George McGovern gave his acceptance speech in televised prime time only in Hawaii. Even the selection of Mr Tom Eagleton for second place on the ticket turned out to be disastrous when he withdrew shortly afterwards following revelations about his health.

In 1980 there was a sense of doom about Mr Carter's chances of re-election, exacerbated by the fact that the party's liberal establishment was emotionally and politically committed to the cause of Senator Edward Kennedy.

In 1984 Mr Mondale seemed destined to be defeated from the outset against a popular incumbent. His choice of Ms Geraldine Ferraro as running mate was eye-catching and perhaps salved the souls of the activists, but it did little for the party's national credibility.

Mr Michael Dukakis went to the 1988 convention with hope, ahead in the polls, but that was to prove illusory. Unity was wafer thin and unity as soon as the Republican guns were turned against him.

Comparisons may be made this year with all the recent predecessors; some work to Mr Bill Clinton's advantage while others do not. For example, it probably helps that the party's activist wing, with a litany of liberal causes that runs to pages, is not the force it was.

Confidence has been low at recent conventions, writes Jurek Martin. This one might be different

values and insert its people into Mr Clinton's organisation, which is still run from Little Rock and still dominated by those without overweening national reputations. The potential for subsequent infighting is great.

Nothing unsettles traditional Democrats more than an overt commitment to traditional values of religion, the family and the work ethic – all of which are centrepieces of the



Democratic dissident: Jerry Brown, who has still to endorse Bill Clinton, addresses supporters at a rally in New York's Central Park on the eve of the party's convention

Clinton movement. The implication is that such a commitment leaves out society's less fortunate, most of whom the Democrats have reckoned to be their own since the days of Franklin D. Roosevelt.

Such an approach, no matter

more popular in the country at large and which cuts across party lines.

It is also a fact that the trade union movement, the underpinning of Mr Mondale, for example, has lost political clout. Yet it can still turn out

still feel vindicated these beliefs.

But Mr Clinton is not a conventional "tax and spend" Democrat and, while there may be an appreciation of the fact that this makes him a less easy Republican target, it leaves the question of where his heart really lies.

All these factors, present and sometimes dominant in recent conventions, are still clouds over New York this week. They may not appear as great as the fundamental question of Mr Clinton's "character" and fitness to be president, but in the months ahead, if not in the enforced harmony of New York, they will drop their rain on him.

After all, Democrats would not be Democrats if they did not fall out from time to time. It is a characteristic that makes the party more interesting – and so difficult to put in the White House.

Clinton sets out policy of bargain with citizens

By George Graham
in New York

GOVERNOR Bill Clinton's call for a "new covenant" between the US government and the American people has left its mark on his party's policy platform.

Echoing the language Mr Clinton has used throughout his campaign, the platform seeks a bargain in which the government promises to expand opportunity but insists that its citizens accept greater individual responsibility.

The covenant would:

- Invest more in education, training and child care for people needing welfare support, but insist that everyone able to work must do so, either in the private sector or in community service;
- Offer all students automatic loans to pay for their college education, regardless of their family income, but require them to pay them back either with a percentage of their future income or through some form of national service;
- Support family leave legislation and expanded child care facilities but crack down on "deadbeat parents" who do not

meet child support obligations;

• Raise teachers' pay but require them to maintain and prove classroom competence.

In its rejection of "both the

do-nothing government of the

last 12 years and the big go-

vernment theory that says we

can hamstring business and

tax and spend our way to pros-

perity", the platform repre-

sents an attempt to appeal to

the centrist Democrats and

independent voters who have

deserted the party in the last

three presidential elections.

The platform also carries a

message of "no pain, no gain"

in its warning that the massive

and rising federal government

deficit will require "fair and

shared sacrifice of all Ameri-

cans for the common good".

Dominated by Clinton sup-

porters, the platform com-

mittee rejected specific proposa-

ls from Mr Paul Tsongas, Mr

Clinton's principal challenger

in the spring primaries, that

would have expanded on the

theme of necessary pain by

calling for a cap on federal

spending and an increase in

petrol taxes.

It does, nevertheless, insist

on the need for an effort to

address the budget deficit by

tackling discretionary spend-

ing, reforming entitlement pro-

grammes and raising taxes on

the wealthy – even though the

platform relies heavily on the

assumption that its economic

growth strategy will generate

more tax revenues.

In the critical area of health

care system reform, the Demo-

cratic platform falls well short

of specifics. The Democrats have

not resolved their dis-

agreements on the best way to

overhaul a system in which

costs are spiralling far ahead of

inflation, even though their

commitment to reform of some

sort is stronger than President

George Bush's somewhat half-

hearted tinkering.

The platform does not

attempt to decide between the

pay-or-play approach, in which

employers would be required

to provide their workers with

health insurance or else con-

tribute to a state fund, and the

Canadian approach, in which

the government would take

over as the sole payer.

Instead, it calls for a

"unique American reform"

that will provide universal

access to quality, affordable

health care at a right.

N-weapon initiative announced

By George Graham

middle-of-the-road foreign policy

plan, but with several dif-

ferences from the Bush stance.

Attacking "the corrosive

effect of foreign policies that

are rooted in the past, divorced

from our values, fearful of

change and unable to meet its

challenges", the platform criti-

cizes the Bush administration

for its placatory approach to

dictatorships and to regimes

which abuse human rights.

Some criticisms may strike

home. The recent call by Dem-

ocrats in the House of Repre-

sentatives for the appointment of

a special prosecutor to look

into the administration's role

in the BNL Iraqi loan fraud

seems likely to maximize the

spotlight on Mr Bush's policy

errors over President Saddam

Hussein.

Apart from calls for a faster

reduction in US forces and a

more pro-Israel policy in the

Middle East, the Democrats differ

little from the Republican

administration in their desire

for collective security arrange-

ments, multilateral peacekeep-

ing and free trade.

In assessing Mr Bush's

remaining roots in the Cold

war, however, the Democrats

underline their claim that Mr

Clinton and his vice-presiden-

tial running mate, Senator Al

Gore, are the candidates of

generational change.

Mexican ruling party heads for state poll defeat

By Damian Fraser
in Mexico City

MEXICO'S centre-right National Action party (PAN) is set to win the governorship of Chihuahua state, only the second time that the ruling Institutional Revolutionary party (PRI) has lost a gubernatorial election in its 83-year history.

Last night the official state electoral commission put Mr Francisco Barrio, the PAN candidate, 15 to 20 percentage points ahead of the PRI with over half the votes counted. According to the unofficial count of the PAN, which claimed victory, Mr Barrio's party had an estimated 50 per cent of the vote.

The PRI appeared ready to concede.

However, the PRI appeared to be leading in the weekend's other gubernatorial election, in the state of Michoacan, where the main opposition was the left-of-centre Party of Democratic Revolution (PRD). The PRD said it was ahead by about two to one after counting 70 per cent of the votes – an estimate backed up by early official returns.

In contrast the PRD estimated that it was narrowly ahead after counting votes at around 20 per cent of the polling booths.

The contending claims could prepare the way for a tense post-electoral period. The PRD is planning to hold a victory rally today, which may turn into a demonstration against the government party.

The PRI hopes that a defeat for the PRD in the stronghold

of its president, Mr Cuauhtémoc Cárdenas, would make it difficult for it to mount an effective challenge in the 1994 presidential elections. For this reason the PRI mounted one of the most expensive and sophisticated campaigns in its history, spending \$33m (£17.2m) in the state, according to observer groups' estimates.

The voting was quiet and relatively trouble-free in Chihuahua, partly because the government and the PAN worked together to ensure a peaceful process. The PAN victory reflects its support in northern, better-off and relatively industrialised states. It won its first gubernatorial in 1989 in Baja California, another border state.

In a 1991 election in the state of Guanajuato, the PRI candidate resigned following charges of vote fraud, after which President Carlos Salinas named an interim governor from the ranks of the PAN.

The PAN's victory in Chihuahua may actually benefit Mr Salinas's government. It will be used as evidence of the PRI's commitment to greater democracy, and further strengthen the hand of the conciliatory faction in the pro-business PAN, thereby widening the gulf between it and the more hard-line PRD.

In Michoacan the election was much calmer than the municipal elections in 1989, but Mr Ricardo Pascoe, the PRD spokesman, claimed the process was "fraught with irregularities – some of them very serious". He said multiple vot-

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to lead the life you
choose will depend on
your financial
resources. An estate
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NEWS: UK

Urban policies have failed, says report

By Alan Pike
and Alison Smith

THE BRITISH government's policies aimed at reversing inner city decline have largely failed, a critical report from the independent Policy Studies Institute concluded today.

The report's conclusion - that after 15 years of urban aid programmes the gap between deprived areas and the rest of the country is as wide or worse - comes at an embarrassing time for the government. On Thursday, ministers will announce successful bidders in City Challenge, the latest in a long series of initiatives aimed at reviving inner cities.

The PSI report acknowledges that City Challenge - under which local authorities bid competitively for government funds for specific urban projects - and the government's proposal for an Urban Regeneration Agency, have not yet had time to prove themselves. It comments, however, that "given the record so far, it is difficult to have much confidence in more of the same".

Major frustrated by lack of Gatt deal

By Ralph Atkins

A DEAL on the Uruguay round of trade liberalisation talks would make "the single biggest contribution" possible towards world economic recovery, Mr John Major, the prime minister, said yesterday.

Amid calls from many Tory backbench MPs for lower interest rates or a sterling devaluation to revitalise the UK economy, Mr Major stressed the importance he attaches to free trade when he reported to the House of Commons on last week's Munich summit of leading industrial nations.

He betrayed his frustration

The report uses official statistics to examine deprived areas in relation to factors including employment, education, training, poverty, health and housing. "Under most headings, the gap between conditions in deprived areas and other kinds of place remains as wide as it was a decade and a half ago. In some respects the gap is wider," it says.

Ministers hope that City Challenge, by making local authorities think competitively about priorities and work in partnership with the private sector, will be more successful than previous initiatives.

They are keen that the announcement of the City Challenge winners should not mean that projects which fail to gain funding through the scheme are inevitably shelved.

Ministers point out that some projects are seeking other forms of government money, and failure in City Challenge need not mean the end of the road. Particular importance is attached to keeping private sector interest in the proposals alive.

Fair trade chief may act on high cost of CDs

By David Owen
and Michael Skapinker

SIR BRYAN Carsberg, newly-appointed director general of fair trading, has raised the possibility of regulatory action over the high price of compact discs just three months after his predecessor rejected the idea.

In a letter last week to Mr Nigel Griffiths, a Labour opposition consumer affairs spokesman, Sir Bryan said he wanted to "review the evidence personally" before deciding on whether a case "exists for additional work and perhaps formal regulatory action".

Mr Griffiths wrote to Sir Bryan last month requesting a fresh inquiry, saying that the investigation by Sir Gordon Borrie, previous director general, had left consumers feeling dissatisfied. Sir Gordon said at the beginning of April that an inquiry by the Office of Fair Trading had found collusion between record companies and retailers.

Sir Gordon said CDs were more expensive than cassette tapes and records and this could not be explained by differences in production costs. CD prices were high because consumers were willing to pay more for them.

In his letter to Mr Griffiths, Sir Bryan, who took up his post last month, says: "There are some indications that the price of compact discs is higher than it should be but the evidence so far is not clear cut." The OFT said Sir Bryan would examine the evidence already collected before deciding whether further investigations should be carried out.

The OFT's earlier decision to take no action on CD prices came as a sharp disappointment to the Consumers' Association, which has campaigned on the issue for several years.

France, in particular, wants the UK to respond positively to recent reforms in the EC common agriculture policy.

Mr Major faced ridicule from Mr Neil Kinnock, the opposition Labour party leader, for what he saw as the "ineffectual results" of the summit.

BUSINESSES FOR SALE

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- Household factory in Worcester and showrooms in Stratford upon Avon, Bath, Leamington Spa and Worcester
- turnover £850,000
- orders & quotations totalling £450,000
- 22 employees

For further information please contact Bob Young or Jane Errington of Cork Gully, 43 Temple Row, Birmingham B2 5JT. Telephone: 021 236 9986. Fax: 021 200 4040.

Cork Gully is authorised in the name of Coopers & Lybrand by the Institute of Chartered Accountants in England and Wales to carry on investment business.



London Zoo, which is faced with closure, could be the final destination for the British pavilion (above) at Seville's Expo 92, under the latest scheme for bringing back the highly admired building to the UK after the world fair ends in the autumn.

Professor Paul Cook, president of the British Science and Technology Trust, said yesterday he was working with British companies to raise the £26m needed to reconstruct the steel and glass pavilion in Regent's Park as a showcase for British companies' developments in environmental technology.

The pavilion, designed by Nicholas Grimshaw & Partners, features a wall of water designed by the sculptor William Tye. Lord Palumbo, chairman of the Arts Council, has already proposed that it should be rebuilt beside the Design Museum near Tower Bridge as a gallery of British design.

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The Director, Project Planning and Procurement Division,
Department of Health and Social Services, Estate Services Directorate, Stoney Road, Dundonald, BELFAST, Northern Ireland BT16 0US.

The closing date for receipt of tenders is:-
Tuesday 18th August 1992 at 1600 hours exactly.

Britain in brief



Blue Arrow appeals under way

Four City advisers convicted of fraud over the Blue Arrow scandal were denied a fair trial because of the length and complexity of the legal proceedings and the judge's late decision to cut down the case against them, the Court of Appeal was told yesterday.

Mr Jonathan Cohen, a former County NatWest chief executive, Mr David Reed, a former head of corporate finance at County and Mr Nicholas Wells, a former County director, were all given 18 month suspended sentences at the end of the trial which lasted a year and four days. Mr Martin Gibbs, former head of corporate finance at UBS Phillips & Drew, received a one year suspended sentence.

All four men were convicted of conspiring to mislead the markets over the result of the 1987 Blue Arrow rights issue by secretly buying shares themselves to raise the take-up level announced to other investors. All except Mr Wells were in court to hear Mr Anthony Hooper QC open the appeals against their convictions.

between Touche Ross, the liquidators, and the bank's Abu Dhabi majority shareholders.

This follows the decision of the UK creditors' committee not to appeal when it was told that it might be liable for costs in the action rather than being able to recover appeal costs from BCCI assets.

Scheme for new N-plant

Nuclear Electric, the state-owned nuclear power utility, is likely to seek planning permission for Sizewell C power station in Suffolk before the government decides whether to give the go-ahead for further plants. A formal application for the £3bn twin reactor plan could be submitted to the local authority later this year - two years before the outcome of a ministerial review of nuclear power economics is known.

Bank wind-up bid delayed

An application by the Bank of England to wind up Rafidain Bank, the Iraqi state-owned bank, was delayed for another year in the High Court. Sir Donald Nichols, senior judge of the Chancery division, ruled that in view of the continued freeze on Iraqi assets the application should be adjourned until 1993.

Rain drain plan

Scotland may export water to England to relieve the water shortage, said Mr Allan Stewart, Scottish industry minister. The Scottish Office is examining a £1bn scheme drawn up by the construction industry for transporting water from the southern uplands of Scotland to England.

Orangemen on the march

More than 50,000 Orangemen took part in the traditional July 12 demonstrations throughout Northern Ireland. Unionist leaders sought to reassure meetings that traditional views were being safeguarded during the political talks taking place with the Irish government.

HUNGARY TELECOMMUNICATIONS BUILDING CONSTRUCTION PROJECT

Invitation to Bid

The Hungarian Telecommunications Co. Ltd. (hereinafter referred to as HTC) has received a loan from the European Bank for Reconstruction and Development (EBRD) towards the costs of constructing a new telephone exchange building complex in District VII of Budapest. The gross floor area of the completed building will be 10,813 square meters, comprising two basement floors and five upper floors and it is anticipated that the contract period will be for 18 months commencing in December 1992.

HTC now invites sealed bids from qualified bidders for the detailed design, construction, fitting-out, furnishing and commissioning of the said building complex. The contract will not include the installation and commissioning of the telephone exchange which will be let under a separate contract.

As part of their tender, contractors will have to be able to demonstrate compliance with the following minimum criteria, inter alia:

- A proven track record in Hungary, or in one of the other emerging democracies of Eastern Europe, including recent projects of a similar size and complexity either completed or under construction.
- A sound corporate financial record over the last three financial years. Companies with an annual turnover of less than USD 50 million will not be considered.
- A project management team, the key members of which will have proven experience in similar projects carried out under similar conditions in similar environment.
- A logical and well thought out approach to how the project will be managed within the time, cost and quality requirements of HTC.

This invitation for bids is open to contractors from all countries. Consortium bids, particularly those involving Hungarian and Foreign contractors, will be welcomed although the structure and modus operandi of the consortium will have to be clearly and logically presented.

A complete set of tender documents may be purchased upon confirmation of payment of a non-refundable fee of ECU 200 (or of the equal amount in any other freely convertible currency). Hungarian companies may purchase the tender documents for HUF 20,000. Remittances are to be made to account # 215-12087 of HTC kept with the Hungarian Credit Bank Ltd. (MHB) with the following remark indicated:

"Erzsébet Exchange - Telecom Building Construction # TB-101/KA"

Cash payment is accepted into the above stipulated account only in the following branch office of MHB:

Magyar Hitel Bank Rt.
H-1133 Budapest, Pozsonyi u. 77-79 - Hungary

No other forms of payment is acceptable. Only those who have purchased the tender document may submit bids. Bidders may obtain the tender documents (upon presentation of the receipt for the payment of the above fees) and may get further information only after 3rd August, 1992 from:

Hungarian Telecommunications Co. Ltd.
Tender Bureau
Mr. Attila Kovács
H-1122 Budapest, Krisztina krt. 55., Room #308
Hungary

Tel: +36-1-155-5198 Fax: +36-1-155-0446

HTC will organise a pre-bid conference for those who have purchased the tender documents. The language of the conference will be English and it will be held at 10.00 a.m. on 24th August, 1992.

The deadline for submission of bids is 10.00 a.m. on 12th October, 1992. The place of submission of bids is indicated in the tender documents.

Further details are given in the tender documents.

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FINANCIAL TIMES

Department of Health and Social Services

MANAGEMENT: THE GROWING BUSINESS

Murder is commonly a family affair, as are numerous other unspeakable crimes that human beings perpetrate against each other.

Any small business owner employing other people needs to bear this in mind.

The more a business can boast it "is just like a family" as far as relations between bosses and workers are concerned, the louder the alarm bells probably ought to ring.

It could mean that little thought has been given to tedious matters such as contracts of employment, personnel records and disciplinary procedures.

The informality is fine when times are good but potentially disastrous when "family" members fall out, perhaps over redundancies, a dispute over pay, hours or holidays. Problems may be compounded by the employment of actual family members and the absence of professional personnel advice within the company.

According to Acas, the conciliation service, the assumption is that because lines of communication are short, problems will resolve themselves.

Acas daily sees the casualties of this approach; such a high proportion of cases come from small businesses that the service's enquiry team focuses on this sector.

In the London region alone, Acas becomes involved in 10,000 disputes over employment rights each year - nearly 20 per cent of the total for the UK - and deals with 80,000 enquiries.

About two-thirds are from employees and the rest are from employers and organisations.

Top of the employers' list, making up 20 per cent of complaints and inquiries, are issues relating to redundancies.

These are followed by disciplinary and dismissal problems (22 per cent) and other contractual issues (18 per cent). Then follow a host of other issues, including maternity leave, holidays and wages.

The first basic error made by

An informal approach to hiring and firing staff often leads to trouble. Diane Summers offers some advice

When relations become strained

many small businesses, which gives rise to these problems, is failing to write things down, says Acas. This starts even before an employee begins work - job descriptions and written details of essential skills, qualifications and experience, will help to clarify exactly what is required from the job and what sort of person will fill it most successfully.

As Chris Jones, acting director of Acas in London, says: "It's easier to knock a square peg into a round hole than knock it out again."

The law requires employers to provide written details of the chief contract terms within 13 weeks of the person starting work (other rules apply to part-timers).

These terms should include:

employee's name; employee's name; date of employment began; job title; amount of pay and interval between payments; hours of work; holiday pay and entitlement; sick pay and pension arrangements; notice periods; grievance and appeal arrangements; and disciplinary rules.

As well as these "express" terms, the courts have established that certain "implied" terms are contained in all employment contracts. These relate to co-operation, good faith and health and safety.

Additional statutory rights, which cannot generally be overridden by contracts of employment, relate to sex and race discrimination, equal

pay and maternity benefits.

Some workers will be covered by wage councils, in which case an employee will be entitled to minimum pay. Among other statutory rights are those covering sick pay, time off for various (including trade union) activities and union membership.

A company's own rules should also be written down to save arguments later (see checklist). But what if these rules are broken and things have gone so badly wrong that the employee needs to be disciplined or sacked?

According to Jones, the balance of power has changed over recent years. "Some companies used to think you couldn't dismiss people at all," he says.

Now employers are more assertive, but the rules still need to be followed carefully if the dreaded industrial tribunal is to be avoided - the time and trouble involved in a tribunal should not be underestimated.

A solid week's work, perhaps for the most senior person in the company, could go into form-filling, communications between the parties, and attending the hearings.

Average tribunal awards of £1,500-£2,000 may end up looking trivial when compared with the other costs involved.

In summary, following investigations and informal warnings, a disciplinary procedure will normally

have the following four steps, says Acas:

- Formal oral warning - in the case of a minor offence.
- Written warning - for subsequent minor offences or a more serious offence.
- Final written warning - for further misconduct.
- Dismissal - with appropriate notice.

The fact that redundancy is a problematic area, particularly since the practice of "last in, first out" is in decline.

Acas warns against using criteria that are now rarely used when it comes to selecting for redundancy, like linked to the recession - some small companies will be contemplating redundancies for the first time.

Selection for redundancy is a problematic area, particularly since the practice of "last in, first out" is in decline.

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Pay may be composed of several elements, including, for example, use of a company car outside work.

Does your company have personnel records?	
Do they include for every employee:	
Personal details - name, sex, date of birth, address, education, qualifications, previous experience, tax code, NI number, any disabilities.	
Employment details - date employment began, date present job started, job title, basic pay, overtime and other extras.	
Absence details - sickness, lateness, authorised, unauthorised.	
<input type="checkbox"/>	<input type="checkbox"/>
Details of accidents	
Details of disciplinary action	
Training details	
Are company rules written down?	
Do they identify:	
Misconduct - leading to disciplinary action, including, for example, persistent lateness, unauthorised absence and failure to meet known work standards.	
Gross misconduct - leading to summary dismissal, including, for example, working dangerously, stealing or fighting.	
<input type="checkbox"/>	<input type="checkbox"/>
Do they also cover:	
Absence - who should be notified and when.	
Health and safety - including any special hazards, alcohol, smoking.	
Standard of work - performance expected	
Clothes - who will provide any special clothes needed, who is responsible for cleaning them.	
Use of company facilities - including personal telephone calls and use of premises out of hours.	
Holidays - any rules about when they have to be taken, e.g. summer shut-downs.	
<input type="checkbox"/>	<input type="checkbox"/>

An employee who is being paid off with a lump sum in lieu of notice may argue the car should be kept for the notice period, or may try to pursue additional compensation.

Bonuses and commission payments may also be a source of argument if the basis on which they are calculated is not clearly defined. When margins are narrow, the

incentive for small businesses to tighten up on timekeeping and cut down on waste will be even greater. However, Acas warns against making unlawful deductions from wages, for example for lateness or till discrepancies.

These sorts of deductions should not be made unless the employee's permission has been given in advance.

Agreement, preferably in writing, should also be gained before changes are made to contracts of employment.

An industrial tribunal may consider it reasonable for an employer to alter a contract without consent, for example to make essential changes in working practices resulting from developments in technology.

But Acas warns that proceeding without agreement is a risky strategy for an employer and could end in claims for unfair dismissal and in the courts - wrongful dismissal.

Clearly, negotiating rather than imposing change will be likely, ultimately, to lead to a more co-operative and flexible workforce.

Misunderstandings may be caused by not spelling out to someone exactly what they are doing wrong; evading the issue or getting a third party to do the dirty work can create similar confusion.

Avoiding a face-to-face discussion about a problem "is in the British character", says Jones. Simply failing to ask for, or listen to, an employee's side of the story is a common root of subsequent tribunal action.

And when the firm that is "just like a family" has a breakdown in communications between family members, the ensuing feuding, ill-feeling and emotional as well as financial costs may be every bit as high as they would be in a domestic setting.

Employing people, the Acas handbook for small firms, can be obtained from Acas Reader, PO Box 797, London SE8 4JX. Enclose £1 to cover p&p.

the fact that the activities of the Departments of Employment and Trade and Industry were not co-ordinated.

But responsibility for a block of activities operated by Tecs, including business skills training, has been transferred from the DOE to the DTL.

The DTL is vigorously promoting the new "first-stop shops". Over the next few weeks, a working party will set-up models for the shops and the DTL has hinted that if successful, the first shop could take on a number of its responsibilities for giving business advice.

Key to future is nation of first-stop shopkeepers

Lisa Wood reports on plans to establish a network of advice centres for entrepreneurs

Britain can no longer afford to waste its "collective energy on "turf battles" between the different agencies delivering help and advice to small businesses, according to Michael Heseltine, president of the Board of Trade.

Heseltine outlined his views last week when he announced the establishment of an initiative designed to bring greater coherence to the delivery of advice and counselling services to small businesses.

A network of "first-stop shops" is to be established, eventually totalling 200, which will bring together

under one umbrella most of the existing agencies that provide help to businesses. These include Training and Enterprise Councils (Tecs), local enterprise agencies and chambers of commerce.

Tecs will be responsible for getting the shops established. Introduced two years ago to revolutionise training in the UK, Tec also has some responsibility for pro-

moting the growth of small companies. Their brief includes the development of business information and advice services, administering the enterprise allowance scheme and providing training provision for small businesses and support for exporters.

Tecs are also charged with bringing greater unity to the many strands of help available and ensur-

ing that any gaps in services are filled.

Resolution of this complex role in what is already a crowded area, has been one of the critical issues facing the movement.

A number of Tec's have been skilled at working with the other agencies. Barnsley and Doncaster Tec, for example, contracted with Doncaster Enterprise Agency to

provide its enterprise allowance scheme, which offers unemployed people help to start their own businesses. Birmingham Tec, with several partners including the City Council's economic development department and Birmingham Chamber of Commerce has set up what it calls a "one-stop shop" which has information about a wide range of services.

But Tec's have come into conflict with the existing providers, most notably chambers of commerce, which are largely supported by voluntary subscriptions. The chambers have been annoyed that some Tec's, supported by public funds, have set up rival services and membership schemes drawing on the same client base.

The problem was not helped by

the fact that the activities of the Departments of Employment and Trade and Industry were not co-ordinated.

But responsibility for a block of activities operated by Tecs, including business skills training, has been transferred from the DOE to the DTL.

The DTL is vigorously promoting the new "first-stop shops". Over the next few weeks, a working party will set-up models for the shops and the DTL has hinted that if successful, the first shop could take on a number of its responsibilities for giving business advice.

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TECHNOLOGY

Research comes back to the nest

Guy de Jonquieres finds out why Nestlé is taking a closer interest in the commercial side of R&D



IT IS lunchtime at Nestlé's gleaming laboratory high on a hillside above Lausanne. Gathered round a canteen table, the company's top researchers are rejoicing at their liberation from the past with the sort of bright-eyed wonderment with which east Europeans greeted the collapse of the Berlin Wall.

In the past two years a minor revolution has swept through the laboratory, shaking its 600 researchers out of a cosy ivory tower existence and propelling them much closer to the cutting edge of the Swiss food manufacturer's global competitive strategies.

Nestlé invests \$75m (450m) a year in research - and \$750m in development - making it the food industry's biggest spender on science and technology. But until recently much of the lab's work was only tenuously connected with the company's business.

"In the past, people here didn't get their hands dirty dealing with food," says Magnus Dagerskog, head of the lab's food technology department. "Everybody was busy publishing papers. They were trying to compete with universities."

Indeed, Nestlé researchers enjoyed an intellectual freedom which many academics would envy. Says Herb Hottinger, head of bi-science research: "When scientists joined the lab, they were told: 'Just work in this or that area. If you work hard enough, we're sure you'll find something'."

But the price the lab paid was to become a sterile backwater, cut off from Nestlé's global network of development centres and largely ignored by its operating divisions. As a consequence, much research never found commercial applications.

By 1990 Helmut Maucher, Nestlé's chairman, had had enough. Deciding a wholesale shake-up was needed, he recruited Werner Bauer, a German professor of bio-engineering, to bring the lab firmly back into the corporate fold.

A mover and a shaker



WERNER BAUER is eight years away from most people's idea of an academic scientist. A fast-talking 40-year-old who likes to start each day with a swim in Lake Leman, he bristles with get-up-and-go energy. He is also a firm believer in democratic management and accountability. "From the beginning, I wanted strong managers in the lab who could influence decisions and make things happen," he says. "I don't believe in co-ordination. I believe in power. I'm a Bavarian."

Yet, he has also exhibited a keen sensitivity and concern for the human touch. Before taking up his job, he took extensive soundings

This has been achieved partly by establishing formal links with the strategic business units (SBUs) into which Nestlé's commercial activities have recently been grouped as part of a wider corporate reorganisation. Each SBU now includes a research co-ordinator, responsible for two-way communications with the labs, which are encouraged to view the SBUs as clients.

Bauer, who previously worked at one of Germany's Fraunhofer institutes of applied technology, has reorganised the lab to focus their priorities more clearly and enable them to respond faster.

The company's senior researchers, far from being resentful, seem exhilarated by the fresh challenges they face. As Brian Suter, British-based chief of Nestlé's research and development puts it, they are full of "boisterous, exuberant, young ideas".

He concedes, however, that the new system still needs time to bed down. In particular, bridges are still being built with the rest of the company's business.

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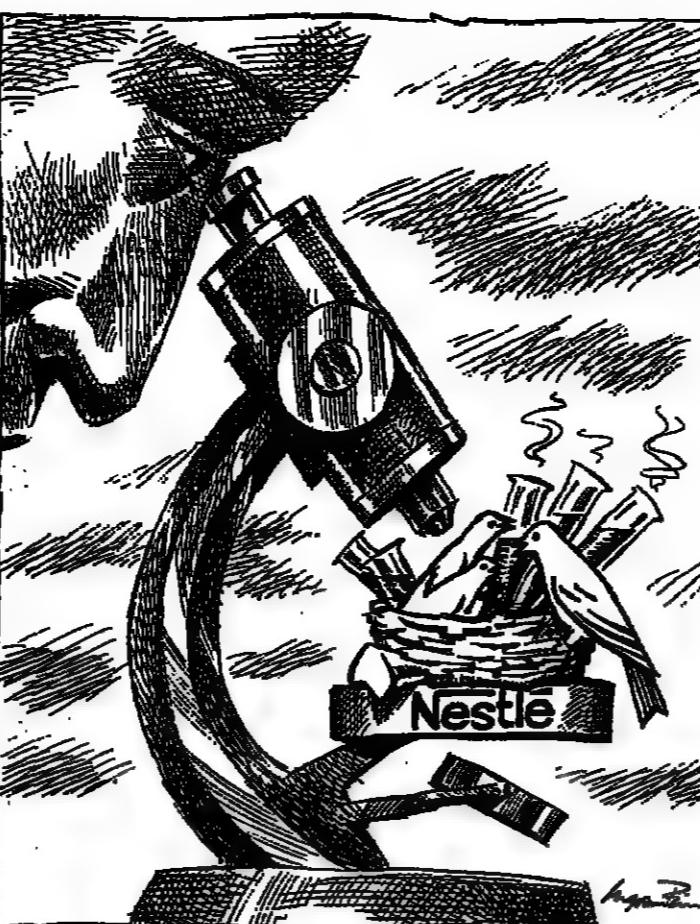
Among its researchers, interviewing 200 of them in two months.

To find out whether they were "analysts", "lateral thinkers" or "implementers", he asked them questions such as whether they owned a motorbike and how they serviced it. You can tell a lot about people's skills from their answers," he says.

Then he moved into action. About 30 older staff were persuaded to take early retirement, and the lab's sprawling operations were grouped into seven departments.

In choosing department heads, Bauer looked as much for administrative and personnel management skills as for scientific ability. Each is expected to act as a "pusher", setting goals for members of his team and monitoring their performance closely.

A hierarchy of priorities has been set for research, by dividing it into four categories: basic science and technology; development of technolo-



draw the line: "In research, there is always a will to perfect. But a company can't afford that," he says. "Stopping at the point where learning curves become incremental is what I see as my major job."

All the more so because the huge marketing costs involved in launching brands are prompting Nestlé to gear research increasingly to strengthening established products, rather than inventing new ones.

The company points to Nescafé, its most profitable product, as a classic example of the approach. The brand has dominated the soluble coffee market for half a century, thanks to continuous updating of process technology and the regular introduction of new variants, the latest of which is instant cappuccino.

Yet the Nescafé formula also sprang from innovations in Nestlé's laboratories which broke completely new ground. By focusing research more tightly in support of existing products, will the company not risk missing out on similar world-beating breakthroughs in the future?

Suter replies that the world has changed radically since the 1950s, when Nescafé was invented. Nowadays, innovations are much more expensive to develop and are much more quickly matched by competitors. Still, he says: "I wouldn't want to exclude that one day we may come up with another blockbuster like Nescafé - it may just be possible."

Technically Speaking The limitations of computer prose

By Jane Dorner

Word-processing manufacturers are getting over-ambitious. Not content with offering inventive features to

make the mechanics of writing easier, they are now providing language lessons.

This ought to be good news for managers who are anxious about standards of English teaching in schools. Unfortunately, however,

providing a suite of writing tools for staff is only a palliative, not a substitute.

Programs that act as reference books on line are handy, but the user has to know whether a problem exists in the first place. That's fine for checking if Middlesbrough has one or two Os in it, but whether to put a question mark before or after a closing quotation mark is a trickier matter.

The trouble is that the limitations on computer memory make it impossible for a program to provide sufficient information about the intricacies of an entire language. This is not surprising as language is too rich to be stuffed within the confines of a personal computer program. Most advice is ill.

Programs that check for errors of grammar or idiom may be a boon to those who recognise the error and can quietly put it right before the client sees it. But they are no good for users who are unsure. Software analysis can easily come up with an incorrect diagnosis or offer inappropriate comment.

Even if it does offer some useful learning points for the insecure writer (when to use "its" or "it's") such programs are only worth their price to those who can sort the wheat from the chaff. And those people trust their instincts, not a number-crunching, pattern-matching system.

One has to admire the ambition of the software producers who have set themselves the impossible task of taming language to fit computer capabilities. The danger is that some users may depend too heavily on such programs to mask their own shortcomings.

Style-checkers encourage deadened prose based on limited criteria of excellence. Good, structured and accurate writing comes from practice, not from software.

Jane Dorner's book, *Writing on Disk*, is published by John Taylor Book Ventures. Price £15.95.

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THE WEEK IN LUXEMBOURG

UK 'net book' agreement contravenes EC law



The UK Publishers' Association's system of resale price maintenance (RPM) for "net books" has been thrown into doubt by the Court of First Instance's affirmation of a 1988 EC Commission decision that the net book agreement (NBA) infringes EC competition rules. Implementation of the decision had been suspended pending the outcome of the PA's appeal. The Court's judgment will now preclude the application of the NBA to imports and re-imports from other EC member states, and also casts doubt on arguments previously used in the UK to justify the NBA.

The NBA requires UK publishers to impose uniform RPM conditions on booksellers for the resale of "net books". The conditions also apply to net books exported to or re-imported from Ireland and other member states, and also to retail exports to other member states. The NBA had been approved in 1982 and 1988 by the UK's Restrictive Practices Court, as leading to lower prices, more stock-holding bookshops and more numerous and varied titles.

The Commission held Article 85(1) applied to the agreements "to the extent that they cover the book trade between member states". It rejected the PA's request for an exemption

CPI 2CH, July 9 1992

Sunday trading issue to be determined by member states

The Court confirmed that Article 85(1) applied, rejecting the PA's argument that, for imported books, the NBA operated only after the books had been imported and thus could have no effect on interstate trade. It also rejected the PA's complaint that the Commission had improperly changed the basis of its objections during the procedure.

Significantly, the Court also specifically rejected the PA's four substantive arguments on the "indispensability" issue. The Court did not accept that publishers would face substantial difficulties in notifying individually fixed terms of trading to booksellers and others. Nor was it established that booksellers would face an unmanageable burden if publishers had different conditions as to discounts and other departures from the NBA structure, particularly since computerisation was now widely available. Third, claims that the NBA reassured booksellers as to their competitors' conduct did not justify collective arrangements between publishers, since enforcement was in practice a matter for the individual publisher. Last, there was no necessity to allow monitoring by the PA of the common conditions.

Case T-65/88, Publishers' Association v Commission,

the tests where all the necessary information on the domestic measures had been provided by the national court and was not in doubt.

Tested against these criteria, the Advocate-General confirmed that the UK Sunday trading rules pursued an objective justified under Community law and that, although, in his view, the restrictions were proportionate to their objectives, the issue was in principle to be determined by the national courts.

Case C-305/88, Rochdale Borough Council v Stewart John Anders; Case C-304/90, Reading Borough Council v Payless DIY Limited and others; Case C-169/91, Council of the City of Stoke-on-Trent and Norwich City Council v B & Q Plc. Opinion, Van Gerven, July 3 1992.

Students' residence directive annulled

Council Directive 80/366 on the right of residence for students has been annulled on the ground of incorrect legal base. The European Parliament had challenged the Directive, contending that the correct legal base should have been Art 7(2) EEC, which involves the "co-operation" procedure with Parliament. The Court however ordered that the Directive should continue to have its effects (ensuring non-discrimination for students moving within the EC) until the adoption of new legislation.

Case C-235/90, Parliament v Council, ECJ FC, July 7 1992.

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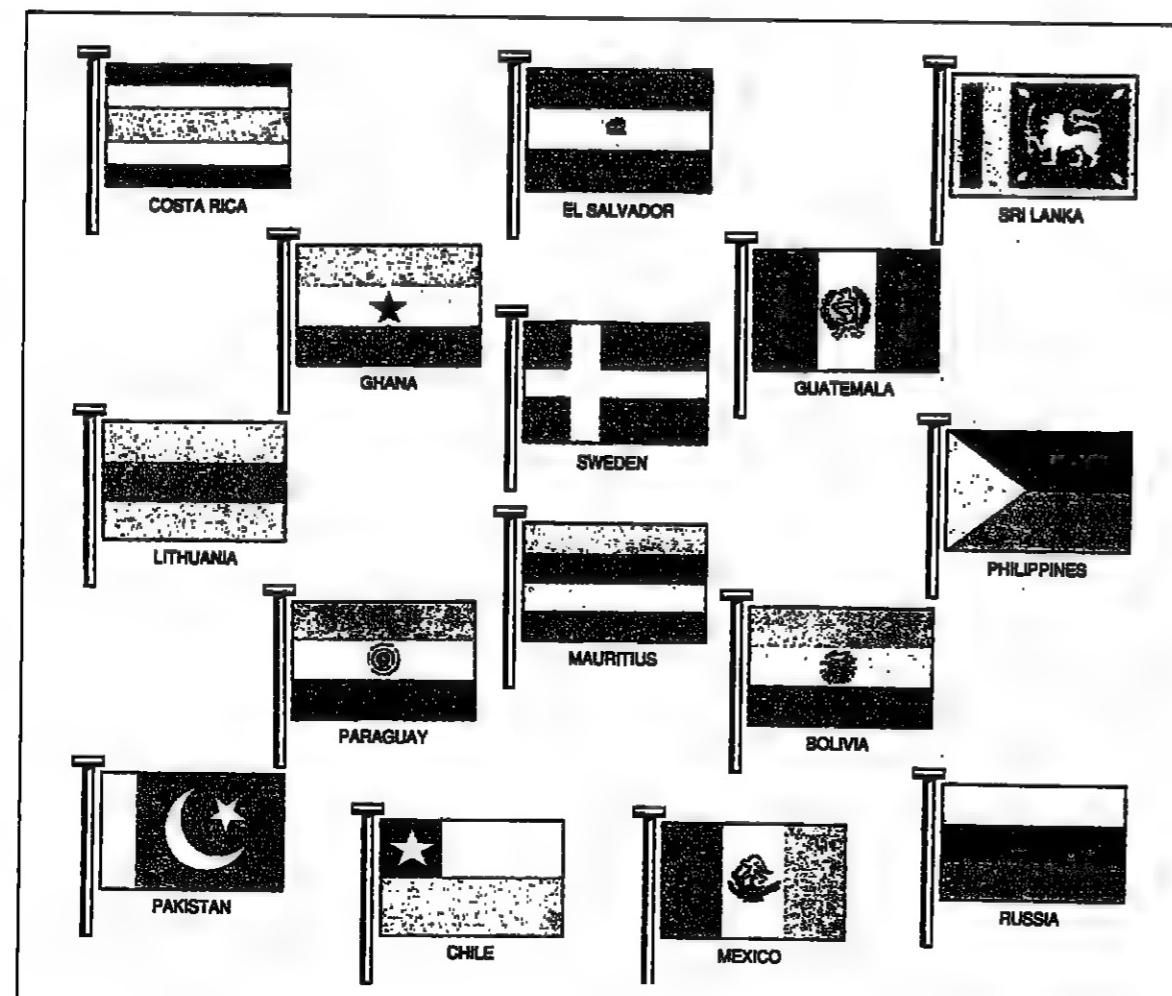
The FT proposes to publish this survey on September 2 1992. It will be of special interest to over 20,000 businessmen in the UK involved in decision making about freight services and over 8,000 senior European business executives with responsibility for distribution and international sales.

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PEOPLE

Kenny joins Potter at Guinness Mahon



Kevin Kenny, chief executive of fund management and financial services group Tyndall Holdings in the difficult period before it was acquired by Jupiter Tarbutt Merlin last summer, has resurfaced at Guinness Mahon, the small merchant bank owned by Bank of Yukonoma.

Kenny becomes director of international private banking, with the three overseas operations - Guernsey, Dublin and Zurich - reporting for the first time to a single board member.

Tyndall suffered heavy losses in the Australian market, with the then boss Garnet Harrison subsequently resigning.

Now comes news that he is to join the Council of the Ombudsman for Corporate Estate Agents, a voluntary scheme set up two years ago to handle complaints against the large chains of estate agents taking part in residential property transactions.

Many people have done more than Sir Gordon to change the face of the industry. He was the driving force behind the 1978 Estate Agents Act and the 1981 Property Misdescriptions Act which is about to come into force.

Lady Ewart-Biggs, the OCEA Council chairman, said yesterday, "no one else knows as much as Sir Gordon about the regulation of estate agents. Rogues had better beware."

Tyndall at the time, which was how the two met.

Tyndall fell under something of a cloud as a result of the Australian debacle. In the past few months there has also been an unseemly wrangle between Jupiter and former Tyndall directors over the management of two funds, Pacific Horizon and European Project.

But Potter says that he was impressed with Kenny's efforts to restructure Tyndall: "He did a great job keeping it moving through the water". Potter also contends that the banking side of Tyndall was, and is, very sound.

"When I knew he did not have a perch [after the Jupiter acquisition] I naturally engaged him in conversation."

Kenny has been a consultant to Guinness Mahon for several months: "There is no better way for both sides to do their due diligence," according to Potter.

Finance moves

■ Christopher Harrison and Andrew Hardie will be relinquishing seats on the board of James Wilkes, the engineering company,

following the sale of the group's promotional products division last week for £11.4m. Some of Wilkes' shareholders were told by advisers at the time of February's failed bid for Wilkes by Petrocon that if the group maintained its independence the two directors would leave the board.

The two directors' service contracts are being terminated conditional on the completion of the disposal.

■ John Hayden, deputy chairman of PROPERTY PARTNERSHIPS, is retiring.

■ John Cohan has resigned from MOUNTLEIGH HOLDINGS.

■ Michael Kianfar has resigned from ENTERPRISE COMPUTER HOLDINGS.

■ Bruce Ralph has resigned as chief executive of DOWTY but remains with the company and will undertake special duties; John Benson, director of human resources, has also resigned but will continue as a consultant.

■ Eric Coward has retired from SUN ALLIANCE.

■ John Lamberman has taken early retirement from WILLIS CORROON GROUP.

promoted to md of NICKERSON INVESTMENTS on the retirement of Colin Tickner who remains chairman.

■ Richard Ellisby, formerly vice-chairman of Charterhouse Bank, has been appointed an md at BANKERS TRUST.

■ Richard Webb, recently chairman and ceo Australis, has been appointed deputy ceo North America for BARCLAYS BANK.

■ Charles Mierszewski has been appointed vice-president eastern Europe for CHASE MANHATTAN BANK.

■ John Kelly, formerly a director of Brown Shipley, has been appointed corporate finance director of CLOSE BROTHERS.

■ Michael Glover has been appointed md of GROSVENOR VENTURE MANAGERS in place of Robert Drummond who becomes executive chairman; Jonathan Portal becomes company secretary.

WPP selects new chairman

WPP, Martin Sorrell's marketing services group, is elevating David Ogilvy, its 81-year-old chairman, to the title of President Emeritus. He will also continue as a consultant to the group. His move will take effect after a shareholders' meeting on August 5, called to consider a refinancing proposal which will, bankers believe, either save or break the company which ran into difficulties after borrowing heavily to buy companies such as Ogilvy and Mather.

Ogilvy's replacement as chairman is to be Gordon Stevens (right), who is a mere 62. He is described as an energetic chap, known for making witty asides during agm addresses - something WPP shareholders will appreciate, no doubt. He joined Unilever, the consumer products group, as a trainee in 1948, and became a director in 1978 when he was "toilet preparations co-ordinator". In 1978 he took charge of the marketing division, moving in 1983 to head Unilever's North American business; succeeding Michael Angus (as he then was) who had pulled that business out of losses. He retired in 1988 and since then has become non-executive chairman of SCA, the rice care company.



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ARTS

War diary of a Vorticist

William Packer

PERCY Wyndham Lewis – painter, novelist, critic, polemicist, agitator – died in 1957 at the age of 74, his sight all but gone and, in his estimation, an acknowledged but marginal figure. Yet through the 1920s and up to the Second World War he had been one of the great men of the Modern Movement, the embodiment of the avant garde.

Born in the US of an American father who abandoned his family, he was brought to England as an infant by his British mother, and in England he remained apart from the period of the Second War, which he and his wife passed in Canada and New York.

Yet his provenance established his character, not exactly a rootlessness, but a certain distance and sceptical dissection that throughout his active life would put him at odds with British institutions and attitudes, social, political and aesthetic.

He was never one not to make his presence felt, and perhaps his habitual vehemence and asperity became a shade monotonous and predictable, and he was not taken too seriously in consequence – only old Lewis sounding off again. But in the vigour and confidence of his youth, in the years before 1914, he was a true leader and inspiration to his generation.

He had been at the Slade around 1900; a student of Tonks, friend and contemporary of Augustus John. In the next few years he travelled wide and often, becoming the familiar of the international

avant-garde, intimate of Pound and Eliot.

William Rothstein remembered him in those early days as "even then (showing) signs of a formidable personality. He hesitated between writing and painting... He liked to shroud himself in mystery. After hiding for weeks, he would suddenly reappear, having been, he would declare, in Sweden, or in some remote country... He certainly went later to join [Augustus] John in Paris. There was an intimacy frequently disturbed by violent quarrels and again renewed."

His greatest public moment came a little later, in the year or so immediately before the First World War, when his own familiarity with Cubism in France and Futurism in Italy bore fruit in Vorticism, that was Britain's own, short-lived equivalent.

A younger Slade generation was committed to the movement, that included Bomberg, Epstein, Gaudier-Berger, Wadsworth, Roberts and Nevinson, but Lewis was its prime mover, chief apologist and polemicist. The review *Blast* was its banner and battle-cry, surviving for only two issues that challenge us still.

Two samples: "BLAST years 1887 to 1900. BLAST their weeping whiskers... SENTIMENTAL HYGIENIC... ROSAUSMUS... PURGATORY OF PUTNEY." And "BLESS ALL PORTS... RESTLESS MACHINES" of scooped out basins, heavy insect dredgers, monotonous cranes... BLESS ENGLAND, industrial island-machine..." This tribute was to the machine in a brave new



Wyndham Lewis's Great War Drawing No. 2 of 1918, pen and ink watercolour

mechanical age, unsentimental and implacable, and one that all too soon was to achieve its awful apotheosis.

But Lewis's disillusionment was to wait upon the long aftermath of the War. Like so many of his artist contemporaries, and many more besides, he went to War young and healthy, educated and stimulated, and found in the extremities and deprivations of the Western Front a kind of fulfilment. And his artist self went with him. He was a gunner, with the Royal Garrison Artillery, and it is this close, oddly monastic community, the quiet and steady hierophants of destruction at their altars that

supplies the essential subject of this exhibition at the Imperial War Museum.

The mood is reserved, detached, objective, the treatment formal in its interest and mannered in its character.

"Whatever happens", Lewis had written in 1915, in his second *Blast*, "there is a new section... that is, for want of a better word, the Abstract".

But by now, so strong was the immediate, phenomenal world that theory and principle had fallen, and abstraction long given way to the abstracted. And indeed it is the conscious mannerism, the formal preoccupation with peculiar rendering of the image,

that gives the work its distance and cool reserve.

It is no unusual paradox that by being so, far from being callously indifferent, the work seems rather to gain an added force and poignant humanity. An officer lounges with studied languor as the men receive their rum. A single gunner, a powerful silhouette against bright cadmium yellow, tugs at the lanyard to fire the gun. Men heave on the ropes, dig their pits, lay their guns, hum their shells, fix their salvoes, go out on patrol, attack, dive for cover.

Just so, the mundane life of the trenches goes on. And no anti-war tract or polemical

image, even Lewis's own symbolic compositions of later years, could ever say so much and ring so true.

The Imperial War Museum is the repository of one of the finest public collections we have of modern British art, notwithstanding its necessarily specialised nature. Sadly, there is no longer any permanently changing display of its riches, which makes these rarer treats all the more worth savoring.

Wyndham Lewis: *Art and War*. Imperial War Museum, Lambeth Road SE1, until October 11; in conjunction with the Wyndham Lewis Memorial Trust

London theatre

The Television Programme

THE main point of interest about the new production at The Gate is that this is the first play I have seen that discusses the problems of long-term unemployment.

If the theatre in the mid-1990s is to tackle serious social questions, this surely must be one of them. Even in France, a country whose economic performance is generally praised, unemployment has remained close to 10 per cent for almost a decade. And it is from France that *The Television Programme* comes.

Michel Vinaver's piece is not a particularly good play, or at least not in this translation by David and Hannah Brady. It attempts to combine too many themes, and dots about too much.

In just over two hours, we go through the corruption of the French system of justice, the corrupting effects of television programme-making and an unresolved murder, as well as the effects of redundancy on the middle-classes. Nevertheless, it has its striking moments.

Three aspects stand out. The first is the method of the interrogations conducted by the magistrate Phelypeaux, played by Guy Burgess.

The French approach to justice is sometimes said to be superior to the English because it tries to establish what happened before putting people in court. Here Phelypeaux asks questions, then produces a statement which the interrogated duly sign. The statements are by no means complete fabrications, but they are at best inaccurate summaries. If that is indeed how the French system of justice

works, Vinaver is to be congratulated for illustrating it.

The second and more familiar aspect is how television programmes can have an exaggerated idea of their own importance. Here the search is on to find a member of the long-term unemployed, persuade a company to give him a job and put the story on film as a topical human interest programme, with the TV channel getting the kudos for exploiting it. The competition among the programme-makers leads to tears and possibly murder.

The third aspect is middle-aged unemployment itself. Vinaver had nearly 30 years' experience of business with Gillette International and presumably knows all about the three 'Rs': rationalisation, restructuring and redundancies. "You're a civil servant," says the 50-year-old victim to the magistrate. "What happened to me will never happen to you."

The Television Programme, like most television programmes, does not go into the subject in any great depth, but at least it registers that here is something worth writing about and which is unlikely to go away in the near future. British playwrights could do worse than pick up the theme.

The piece is directed by Kim Dambach and is the first of a season of Six Plays for Europe under the Gate's new artistic director, Laurence Boswell.

Malcolm Rutherford

Gate Theatre, London W1, until August 1. (071) 228 0706

Olof Baer recital

THE programme chosen by the Dresden-born baritone for his debut with pianist Geoffrey Parsons at the Royal Opera House on Sunday night was tasteful and chronological: a brisk survey of the Austro-German lyric art (with a glance in the direction of Hungary), beginning with Mozart and Beethoven, proceeding to Schubert, Mendelssohn, Schumann and Brahms, and culminating in Hugo Wolf, with encores from Liszt and Strauss.

Mr Baer's baritone is light and smooth and well-nigh perfectly formed, projecting easily while still sounding intimate and mellow. His enunciation of the German words was immaculate even in a fault – his diction had a shapeliness that sometimes seemed self-regarding. Just as his stage manner was sweetly pleasing, so his way with these *Lieder* too often seemed like prettification rather than interpretation. His approach was seldom searching and his considerable beauty of tone was more dutiful than original.

The critic Roland Barthes listened always for the "grain" of an art-singer's voice, its trace of individuality or eccentricity, its cutting edge, even

its flaw. Mr Baer is a singer pretty well devoid of this quality, though an occasional excess of vibrato in the voice might count as some kind of flaw, while, at the end of Schubert's hauntingly vaporous *Diese ist hier gewesen*, on the word "Tränen" (tears), he was wittily or come out with a quivering or weakening of tone that had certain "grainular" facets.

But nearly all his items passed by as the merest diversions of the big auditorium while still sounding intimate and mellow. His enunciation of the German words was immaculate even in a fault – his diction had a shapeliness that sometimes seemed self-regarding. Just as his stage manner was sweetly pleasing, so his way with these *Lieder* too often seemed like prettification rather than interpretation. His approach was seldom searching and his considerable beauty of tone was more dutiful than original.

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its flaw.

Music at the Almeida

David Murray

NOW that the greatly loved Almeida Festival has become an Almeida (new) Opera season, non-operatic music is a receding factor: not abandoned, but distinctly marginalised. Three concerts on Sunday, however, made their marks, some of them black.

First there was the Argentinian pianist Alma Peltzer, billed to play the complete *Goyescas* of Granados – with its bright pendant "El Pelele", which the composer wanted always to be included even if other movements were dropped.

As we learned upon arriving at the Almeida, Miss Peltzer had decided to omit it, and the big opening "Requiebre" and the *Fandango*; in fact she offered a bit more than half of the music. Just four movements for patrons who had paid £20 or £26 to hear the whole cycle. I thought that rather disgraceful, but I judged prematurely.

In the event, it was so disappointing to hear her pick her way through the chosen movements – slowly and carefully, eyes glued to the score – that it would have been quite dreadful if she had played them all. For that relief, much thanks. By sight-reading standards she was neither unusual nor especially inaccurate; but these

appealing, diffuse, self-quoting pieces need a flair, a variety of touch and an instinctive long breath which are unavailable to a pianist who is still learning the notes.

That recital, billed absurdly as "Goyescas I", was followed by a "Goyescas II" from a more efficient pianist, a young Belgian who likes to be known as "Luk".

His grab-bag programme consisted of old Kreisler's Sonata no. 7 (definitely academic "serial", but quite lucid and mellow), pieces by the Almeida opera-composers Nils Vigeland and Nigel Osborne (essentially neo-romantic), and curious stuff by three composers of whom the programme-book told us nothing except that one Spaniard was the pupil of the other.

Emiliano del Cerro's *Imagen Contrapuesta* was skeletal, harp-rebarbitive and silly, and his teacher Luis de Pablo's *Retratos y Transcripciones* echoed well-tried experiments from 20 years back.

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later, the Almeida Cello Ensemble offered more grown-up stuff. If the rock-ordained *Ostinato* by Ferrero and Takayuki Rai's slick *Recursive Figuration* sounded like proto-exercises, Henze's lovely 1962 cantata *Being Beauteous* and Rupert Bawden's new *Mörke Lieder* made bigger waves.

Both of those enlisted Skals Kanga's high-definition harp and Sarah Leonard's beautifully assured soprano, to irresistible effect: the first work conducted by David Parry, the other by his composer.

Bawden's idiom here manages somehow to combine the ripe musical language of Berg's Lyric Suite with the unmistakable tone of pre-war English pastoral. It bypasses Britten (who nearly went to Vienna for lessons with Berg, and was thwarted at the last moment), but its harmonic diction remembers the Vaughan Williams of *Wenlock Edge* and the "Tallis" Fantasia, and there follows Brahms.

Both of those ensembles have a taste of hell – and the chance to repeat – before the statuesque dinner guest hauls them off.

The Don Juan character holds the play together, principally because Shawell wrote no other substantial part.

Jim McKechnie in the title role gives a remarkable performance. He manages to be consistently vicious and libidinous, in touch with his conscience long enough to enjoy ignoring it.

Marcus Goodwin's direction speeds the plot, and there are good cameo pieces from Lia Zogroatou and Eddie Marsan.

Andrew St George

The Libertine

THIS is a bold, welcome staging by The Ten Trumpets Theatre Company of the first *Don Juan* play to reach the English stage. Thomas Shawell's work was last performed in 1740 and it is easy to see why it has been resting for more than 250 years; and easier to see why it should be staged again now. Although it lacks dramatically, the 1980s make fertile ground for its issues: misogyny and men's self-doubt.

The tragicomic story is familiar enough. The Don's women turn either to doe-eyed devotion or wide-eyed anger. His sidekicks wallow in his miscreancies; all of them have a taste of hell – and the chance to repeat – before the statuesque dinner guest hauls them off.

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Andrew St George

Pentameters Theatre, Hampstead NW3, 19 July sponsored by The Elephant Trust

Hampstead Theatre, Hampstead (071) 435 3648, to 19 July

Someone Who'll Watch Over Me

WHY Frank McGuinness's new play should take its name from a verse-line of the Gershwin's song used here to cover most of the scene-breaks instead of its real title, "Someone to watch...", is the least puzzling thing about it. Doubts that nothing is made of his being black: did McGuinness really write the role with a black actor in mind? Rea lavishes all his wry, vulnerable charm on the Irish newsman. As the elderly, prissy English professor, McCowan is of course immaculate, and of course he gets to recite bits of *The Wanderer* in the original Old English.

McGuinness seems deliberately to have given no overt structure to the piece. There aren't even any surprises to speak of – just the endless conversation, articulate, searching and frequently witty.

Unlike most Shavian ones, it does have moments of intense feeling; but they are held within careful restraints, as if to insist that individual pain and despair are not what this play is chiefly about. Robin Leach has directed the proceedings with perfect tact.

David Murray

Hampstead Theatre, Hampstead NW3, 1 August; (071) 722 9301

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Tuesday July 14 1992

Poland's new government

A WELL-GOVERNED and prosperous Poland is essential to stability in the centre of Europe. The formation at the weekend of a new Polish government headed by Ms Hanna Suchocka is, therefore, to be warmly welcomed. Warsaw should now be able to resume negotiations with the International Monetary Fund, deal with foreign investors and resume the task of creating modern, democratic institutions.

Much depends on the degree to which the new prime minister can forge a coherent administration out of seven parties. Much depends as well on the kind of support offered by the president.

Mr Lech Wałęsa deserves much of the blame for the political turmoil of the past two years. He deliberately undermined the cohesion of the first non-communist government, led by Mr Tadeusz Mazowiecki. Once elected as president, he proceeded to quarrel with most of his erstwhile political friends and intrigued endlessly to enhance his power.

The struggle became acute after last October's general elections, which were held on the basis of a flawed electoral law. The result was a fragmented parliament and resurrection of the communists as the second largest party. Mr Wałęsa opposed the new government led by Mr Jan Olszewski, forcing what his Polish critics complain is a de facto alliance with former members of the communist nomenklatura in the armed forces and secret police.

Two years of in-fighting between the president and parliament have undermined popular support for parliamentary democracy. But they have also further encouraged able Poles to eschew politics and public service and devote themselves to making money. Instead.

Entrepreneurial energy

The latter is not a wholly adverse development. Poland's strength is its entrepreneurial energy. Economic reforms during the first few months of democracy, particularly the freeing of foreign trade, the abolition of many subsidies and Zloty convertibility, were sufficient to spark off rapid de facto privatisation of the economy. Like Italy, post-communist Poland

has shown that its people are able to keep the economy going, even without an effective government.

Zloty devaluation has stimulated export growth, which is also helping to pull the economy out of a steep recession. Meanwhile, cuts in government spending have kept inflation within limits acceptable to the International Monetary Fund. With a new government, negotiations with the IMF on an aid and credit package worth about \$2.5bn can resume.

Steady government

Things could, if short, have been worse. But Poland needs a period of steady government to restore the confidence of foreign investors, re-start the stalled mass privatisation programme, modernise the tax and banking systems, and create an effective and affordable social security network.

Poland also needs a government able to deal with the sensitive question of the involvement of many public figures in the previous communist regime. Until this is done, the suspicion will remain that some are using their old links either to blackmail those now in power, enrich themselves, or both.

A which must be avoided. Many who worked for the former regime were neither scoundrels nor incompetent. Active and passive opposition to the old regime was more widespread in Poland than elsewhere. But those who served the old regime, especially in areas like internal security and the military should be identified. Those who are hostile to democracy cannot expect to occupy the most sensitive positions.

Poland's first post-communist governments ruled on the basis of a compromise that outlasted the collapse of communism. This delayed the vetting process that was needed. But coping with the past must not divert attention from the main priority: building a stable, prosperous and democratic future. With that overriding goal in mind, President Wałęsa and parliament should work together to support the new government. That government is after all formed of parties that have their origin in the Solidarity movement, which under Mr Wałęsa's leadership restored democracy to Poland and thus paved the way in eastern Europe.

Reviving the inner cities

"THE DECAY at the heart of Britain's cities is one of the biggest challenges faced by its government," according to Urban Trends, the new survey of inner-city life from the Policy Studies Institute. Since the first white paper on urban regeneration was published in 1977, billions of pounds have been spent on the UK's inner cities through a battery of government initiatives. Yet, the PSI survey concludes that these measures have had little impact on narrowing the gap between the most deprived boroughs and the rest.

Even more gloomily, this first independent assessment of 15 years of urban regeneration policy finds that the gap has widened in some respects. In most of the areas studied, the pupil/teacher ratio in primary schools has worsened over the period - against the national trend. People from deprived areas have done worse out of training than those from other areas. Homelessness in many of these areas has increased by more than average. These are depressing findings at a time when minor riots have become an almost routine feature of life in many British cities.

The report does, however, find some evidence of success in the efforts of urban development corporations, City Action Teams and Task Forces in improving the employment position of those who live in their areas. Considerable effort has gone into reclaiming derelict land and docklands. Transport and other economic infrastructure has been improved to tempt business back. But the effects have been patchy: while a third of the deprived areas surveyed saw their share of UK unemployment fall, the share increased in just over a third.

City Challenge

That patchiness could be exacerbated by City Challenge, the new bidding process used to allocate much of the government's funds for urban regeneration. On Thursday, Mr Michael Howard, the environment secretary, will announce the 20 urban priority areas which have won a share of £750m over the next five years in the second round of bidding. Eleven local authorities shared out more than £400m in last year's first round, so just over half of the 57 urban pri-

T he tussle over the site of the European central bank (ECB) centres on the clash of competing national symbols. The bank, which is designed to one day run a single European currency, provides a glittering prize for financial centres jostling to bring money, jobs and prestige to their cities.

The ECB is a linchpin of the Maastricht treaty on political and economic union. The weighty national issues at stake ensure that politics rather than economics will determine where the bank eventually finds a home. But, until the wrangling over its venue is settled, highly contentious questions on the central bank's organisation and functioning are being left in shambles. For some central bankers and economists, worrying about how - and, indeed, whether - the ECB will eventually work, the debate over the bank is concentrating too much on public relations, and not enough on practicalities.

For the moment, however, the matter is firmly in the hands of the lobbyists. Sir Brian Jenkins, Lord Mayor of London, who heads Britain's bid to bring the bank to the City, leaves from his chair into a corner of his office. He fishes out a plastic-framed 20m x 20m banknote printed during Germany's 1923 hyper-inflation, a gift from the Dresdner Bank. This is evidence, says Sir Brian, that the Germans who want to bring the bank to Frankfurt or Bonn on the basis of their postwar record of monetary stability - have not always been anti-inflation champions.

Sir Brian, campaigning on the basis of London's size and prowess as a financial centre, is doing his best to counter a brochure from Frankfurt, recently presented to him by Mr Andreas von Schoeler, the city's mayor. Frankfurt's promotional leaflet, emphasising that Europe's mooted central bank will best prosper in a "culture" of price stability, points out that the UK has registered a 5.4% per cent inflation rate during the past 20 years. Germany, by contrast, was top of the EC league table with a mere 1.1% per cent.

Mr Gabriele Eick, the Frankfurt official in charge of the city's campaign, is keeping up the momentum - even though a majority of EC leaders came out for Bonn by a 10 to two majority at their summit in Lisbon. "Bonn," she says scornfully, "is not a financial centre." Amsterdam, meanwhile, is also pressing ahead with its own bid. The city knows that its best chance will come from disagreement between Germany, Britain and France. "Our case is based on the fact that, as a financial centre we're not a threat to Frankfurt, London or Paris," says Mr Jan Steinbauer, who is running the city's campaign.

An ECB decision is likely at the EC's heads of government summit in Edinburgh in December, which must choose a site for the bank's forerunner, the European Monetary Institute, planned to start in January 1994. Even cities with little chance of winning are not giving up. Edinburgh is sticking to its apparently hopeless quest for at least part of the bank's functions. In an unusual initiative, the Scottish capital is considering going into partnership with other marginal contenders, Barcelona and Lyon, to bid for the whole operation.

The ECB would carry out decisions made by a governing council of representatives from national central banks. It would function as a policy-making machine, a collector of banking statistics and a large operator on financial markets.

Ministers are said to be uneasy about the fate of local authorities which lose out in competitive bidding. The failure of Birmingham's bid in the first round of City Challenge threatened the future of its imaginative partnership with the private sector to regenerate the Heartlands area, for example. A new urban development corporation was hastily created which provided £50m of funding to keep the show on the road. More such ad hoc solutions may have to be conjured out of Mr Howard's hat if some inner city areas are not to be allowed to spiral down after Thursday's winners are announced.

Funds unavailable

The PSI, inevitably, proposes more money, which is highly unlikely to be available given the pressing need to contain the growth in the public sector borrowing requirement. It would be foolish to expect a crock of gold.

More promising is the PSI's second recommendation: better management of whatever budget there is for inner-city regeneration. Money is already available through a plethora of different schemes, via various agencies and from several government departments. A clearer focus, preferably involving just one stop for local government, would allow targets to be better defined and progress to be regularly monitored. It would also reduce the scope for local authorities to indulge in "grantsmanship", in which skilful exploitation of government grants yields bigger dividends than efficient delivery of services.

There is no reason in theory why City Challenge cannot evolve to provide a one-stop funding agency, with clear objectives and tight monitoring, but that will involve the government throwing away the powerful sanction of withholding funds entirely. Without a more mature and trusting relationship between central and local government, Britain is unlikely to do more to regenerate its inner-cities in the next 15 years than it has done in the past 15.



The sudden appearance of Mr Paul Dacre as editor of the Daily Mail could be tiresome news for Mr John Major. Let me explain. The prime minister was, shall we say, assisted in his endeavours to win the election on April 9 by a solid and unanimous Tory press which heavily outnumbered the few opposition papers. All of it stuck to a script that I assume was written at Central Office. The Daily Mail did its bit, *cum grano*. The Conservative papers rubbish Mr Neil Kinnock, and helped spread the idea that Labour would add huge amounts to everyone's personal taxation. Mr Major duly won.

Since then, as is proper in a democracy, those same newspapers have been all over the place. The prime minister still gets a good press, but no organ can be relied upon to support the government, certainly not on every issue. This is as it should be. I would not remark upon other publications at all, but for the fact that the official opposition has been dormant since April 10. The consequence is that the only significant alternatives to strategies made in Downing Street have been put forward from the Conservative benches - and in parts of the Tory press. The two wings of this internal opposition draw natural support from one another.

Many of the Conservative papers have become either uncomfortable doubters or hostile opponents of the prime minister's European and economic policies. The Maastricht treaty has few friends. The maintenance of Britain's position within the exchange rate mechanism is seen solely in terms of its upwards pressure on interest rates. Maastricht and the economy have become bound together. They are twin albatrosses slung around Mr Major's neck. The significance of Mr

David Marsh on the bruising battle over the site for the European central bank

No place for bank to call home



Although policies would be centralised, they would probably be executed in a decentralised way. Existing national central banks would be maintained as operating arms, and some of the bank's central functions (such as banking supervision, computer systems and accounting) could also be split up.

For the central bank to succeed in its intention of controlling inflation, location of its head office in a prime banking centre would not be essential. "With good telecommunications," says a top official from the Bank for International Settlements, the central bankers' bank in Basle, "it could operate from the top of a mountain."

Backers of London and Frankfurt say, however, that the bank's policy-making touch would be surer if it were based in a city with acknowledged financial expertise. The bank could indeed represent a colossal prize. If all the EC's monetary reserves came under its sway, it would be responsible for foreign exchange holdings of \$300bn.

The ECB could start operations by 1999, according to the Maastricht timetable. Plans for monetary union could be heavily disrupted by further problems in ratifying the treaty, as well as by member states' economic difficulties. But, for the moment, most EC leaders assume that the ECB will be a reality by the end of the century.

In the political horse-trading, which also involves the sites of about a dozen other EC institutions,

Germany has the greatest weight - on account of its economic and political stature. Chancellor Helmut Kohl is arguing strongly for the bank to take root in Germany to help overcome popular German misgivings over giving up the D-Mark in an accompanying move to win favour from France. Germany could agree to the new European currency being called the "Eurobond," according to one idea circulating in the Bonn chancellery. Earlier this year, apparently prompted by Mr Felipe Gonzalez, the Spanish prime minister, Mr Kohl conceived the idea of proposing Bonn as an alternative to Frankfurt, on the grounds that the small city on the Rhine would be more acceptable to other countries' financial centres.

Although it is officially backing the ECB, Barcelona, Spain is one of Mr Kohl's natural allies in the ECB skirmish. Mr Luis Angel Rojo, deputy governor of the Bank of Spain, said in May that he was "convinced" that Germany would succeed in attracting the central bank.

Britain's own ECB campaign has been intensified since Mr John Major awarded London its personal backing at a Downing Street meeting on May 13. Since then, the Corporation of London, the City's governing body, has been given Treasury help and the support of embassies abroad. However, Mr Jacques Delors, the European Comis-

sion president, warned earlier this month that Britain's efforts would almost certainly be in vain. This reflects both the UK's lack of full political commitment to ERM and also, Mr Delors says, the need to provide the Germans with "sufficient" on the bank site as compensation for the D-Mark's demise.

For London's Sir Brian Jenkins, however, the game is far from over. Like an obstinate lawyer trying to overturn a solid majority on a recalcitrant jury, London's Lord Mayor is continuing a tour of European capitals to try to persuade governments that putting the bank in London is "best for Europe". Some EC officials see the US Federal Reserve system as a "model" for the workings of the ECB. Based on the New York Fed's role as the market arm of the Washington-centred Fed network, Britain backs the view that London could provide the operating arm for a European central bank with its head office, say, in Bonn. As analysts such as Mr Remmersperger point out, however, the analogy is faulty. Since European countries linked by ERM will all be operating separate fiscal policies, central banking money market operations - closely linked to governments' budgetary policies - will have to remain highly decentralised.

As the ECB lobbying intensifies in the coming months, such questions may come closer to the headlines. It would not be before time. Mr António Cavaco Silva, the Portuguese prime minister, complained last week that wrangling over choosing the ECB site was damaging "the credibility of the whole Community". However, the damage would be still greater if the EC agreed on a place to build the bank - but found that there was no consensus on how it should carry out its business.

The Bank of England, Bundesbank and Nederlandsche Bank have all been helping their respective financial centres in their political

Joe Rogaly

More deadly at the Mail

Dacre's appointment is that the Daily Mail, which my moles say was anyhow getting ready to move towards becoming an uncomfortable doubt, may now be roughly manoeuvred into a stance of open hostility.

The latter is also sounding an increasingly uncertain note. I have only once heard its proprietor, Mr Courtenay Black, speak on European Community matters; my recollection is of a man who out- Thatcherised Thatcher. His Sunday Telegraph has become a last redoubt for her admirers. Meanwhile, The Times, still under the editorship of Mr Simon Jenkins, has been scornful of the Maastricht deal ("an invitation to an ever more interventionist bureaucracy"), while The Sun has conducted a running campaign to get Mr Norman Lamont to cut interest rates ("Do it, Norman"). In compensation, the Evening Standard, a London newspaper, which Mr Dacre edited until last week. He moved it steadily rightwards. He featured Sir Alan Winkler, scourge of the ERM and Maastricht, and the man whose presence Mrs Margaret Thatcher's side was given as a reason for the resignation of Mr Nigel Lawson as chancellor. The treaty of which Mr Major is so proud was referred to in editorials as the "ex-Treaty of

The pulse of the Tory party beats through the Daily Mail, just as its heartbeat is in The Daily Telegraph

Maastricht"; just a fortnight ago the Standard devoted an entire editorial page to an attack on Britain's membership of the ERM. Do not mistake me. It is a free country. I merely note what happened. No criticism of Mr Dacre's editorship is implied.

I cannot say whether the Daily Mail will be moved in the same direction now that Sir David Enthoven has stepped down as editor and the man from the Standard has moved in. Under Sir David, the paper was staunchly pro-European, and pro-Major, although latterly it may have been getting ready to wobble. It is not known how free the new editor will be his predecessor, a life-long hands-on operator, will sit above him as editor-in-chief of the Associated Newspapers group. The likelihood is that some turn against Maastricht and the ERM can be expected; the interesting question is how much and how

soon. This could be troublesome for the government. The pulse of the Conservative party beats through the Daily Mail, just as its heartbeat can be found in The Daily Telegraph.

campaining. Top Bundesbank figures have probably been less active publicly than their counterparts at the Bank of England. But the German central bank firmly backs the view that an ECB outside Germany would probably be opposed by the German public.

Public attention throughout Europe has concentrated on the sparing over the bank site. Other, highly intractable, problems are, however, bubbling beneath the surface. One focuses on the issue of the ECB's independence. The Bundesbank is dissatisfied with the lack of progress in most countries on making national central banks independent - one of the conditions of the Maastricht treaty.

Additional, European central banks disagree on how the ECB would operate a common European monetary policy. This is one of a series of ECB-related issues on which European central banks are trying to co-ordinate ideas - with little success so far. Mr Hermann Remmersperger, chief economist at the BHP Bank in Frankfurt, who has made a study of ECB plans, criticises the lack of clarity on how the ECB would run monetary policy. Excessive debate on the site is an extreme case of "putting the cart before the horse", he says.

EC central bankers have set up three committees and five lower-level working parties to try to make joint suggestions in fields ranging from banking supervision, monetary policy and foreign exchange to statistics, payments systems and banknote printing. In monetary policy, the Bundesbank argues that minimum reserves on bank deposits - levied in West Germany since 1948 - should be introduced throughout the Community to provide harmonised monetary control.

The Bundesbank firmly opposes French and British suggestions for holding on to large parts of national monetary practices. The Banque de France and Bank of England argue that this is in line with subsidiarity - delegating decision-making to a local level as possible. This argument is stoutly rejected by a top Bundesbank official, who says that the other countries do not want a fully-fledged European central bank, but simply a form of loose "currency board".

Some EC officials see the US Federal Reserve system as a "model" for the workings of the ECB. Based on the New York Fed's role as the market arm of the Washington-centred Fed network, Britain backs the view that London could provide the operating arm for a European central bank with its head office, say, in Bonn. As analysts such as Mr Remmersperger point out, however, the analogy is faulty. Since European countries linked by ERM will all be operating separate fiscal policies, central banking money market operations - closely linked to governments' budgetary policies - will have to remain highly decentralised.

As the ECB lobbying intensifies in the coming months, such questions may come closer to the headlines. It would not be before time. Mr António Cavaco Silva, the Portuguese prime minister, complained last week that wrangling over choosing the ECB site was damaging "the credibility of the whole Community". However, the damage would be still greater if the EC agreed on a place to build the bank - but found that there was no consensus on how it should carry out its business.

England v Pakistan

at

The Foster's Oval

6th, 7th & 8th August 1992

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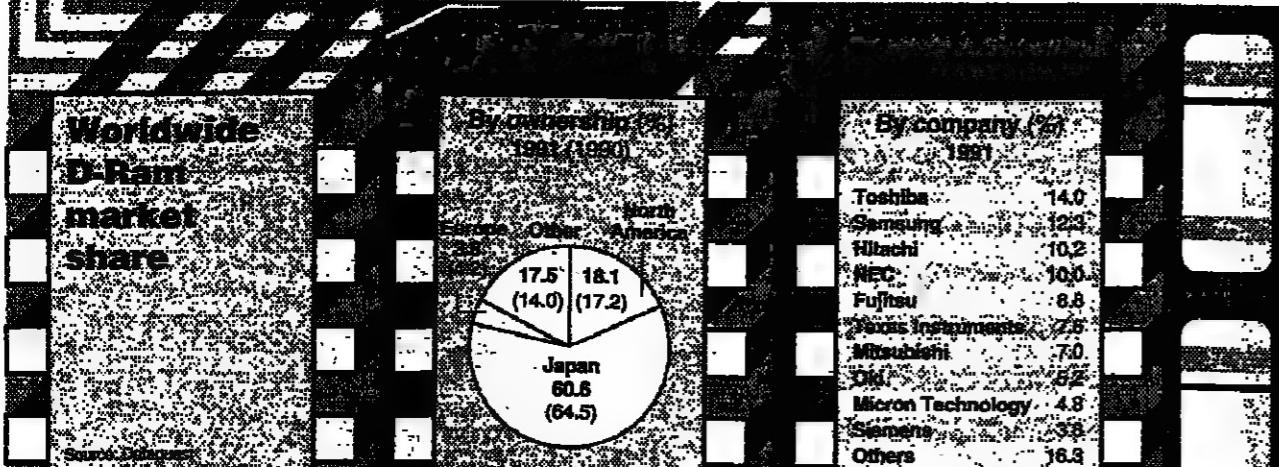
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Partners thank each other for the memory

Steven Butler and Louise Kehoe on the growing trend towards global alliances in the semiconductor industry

Semiconductor memory chips have long been the subject of bitter trade tensions between the US, Japan and Europe. Now these crucial computer components are at the centre of a series of international collaborations as some of the world's largest electronics companies seek to share the rising costs of development and manufacturing.

Two agreements announced yesterday are the latest examples of a growing trend towards international co-operation. First, International Business Machines of the US, Toshiba of Japan and Siemens of Germany have agreed jointly to develop 256-megabit dynamic random access memory (D-Ram) chips. Memory is the cornerstone of digital electronics. The reductions in cost and size together with increased reliability which can be achieved by compressing more memory on to a single chip are dramatic. As more of the added value in electronics comes from information stored in chips, larger memories contribute hugely to the development of a wide range of electronic products from "personal assistants" to mobile phones.

The second agreement yesterday, between Advanced Micro Devices of the US and Fujitsu of Japan will set up a joint venture to make "flash" memory devices, which are expected eventually to replace the disk drive in personal computers.

In spite of the fiercely independent and nationalistic nature of the semiconductor industry, manufacturers are being drawn into collaborative arrangements by the need to share both the escalating costs and the risks of remaining on the leading edge of semiconductor technology. "The costs now exceed what any single company can bear," said Mr Tatsuyoshi Kawanishi, senior executive vice-president of Toshiba, a leading Japanese chip maker.

This is particularly evident

in the \$7bn global D-Ram market, where the cost of development and manufacturing is soaring while prices are in a steep decline. With research and development of the 256MB D-Rams expected to exceed \$1bn, the world's chip makers are looking for partners.

The trend towards cross-border alliances was signalled last year when NEC, Japan's largest semiconductor maker, and AT&T, the American telecommunications group, agreed to work together on advanced technology needed to develop 4MB D-Ram chips. Today, 16MB chips are the most advanced high-capacity devices commercially available, but 64MB chips should be ready in about two years.

Hitachi of Japan and Texas Instruments of the US are also working together on future generations of D-Rams while IBM already has a D-Ram technology-sharing agreement with Siemens as well as a joint manufacturing alliance in France with Siemens. Toshiba similarly has links with Siemens and in Japan with IBM.

While yesterday's agreement between IBM, Siemens and Toshiba currently focuses on research and development, joint manufacturing would be a "logical extension" of the alliance at some point in the future, Mr Jack Kuehler, president of IBM, acknowledges.

Notably absent from the D-Ram venture are any of the rising stars of the Korean semiconductor industry which has become a big supplier of D-Rams over the past four years. However, the partnership may be open to additional participants. They could come from among competitors such as the Japanese companies NEC, Hitachi and Fujitsu, and Samsung of Korea.

Although sharing the huge costs of developing 256MB

storage medium of choice in portable personal computers and facsimile machines, is also costly and involves considerable risk. "In the future it will become increasingly difficult to succeed if a company is going to play by itself," said Mr Eikotaro Masumura, managing director at Fujitsu, yesterday.

In many ways, the deal between Fujitsu and Advanced Micro Devices carries co-operation as a "technology driver" and the size of the market. More important than the design of the D-Ram chip is the development of technology used to manufacture it.

To achieve a density of 256m memory cells on a single chip will require shrinking the size of the circuit elements to just one quarter of a micron, about half the size of today's most advanced chips. This will require significant advances in materials and production equipment, tools and processes.

Once they are technology used to all types of semiconductor devices.

What are the commercial prospects for megachips? With prices for 4MB parts at rock bottom and huge overcapacity because of the recession, no semiconductor manufacturer is making money out of D-Rams at present. The semiconductor industry, however, is notorious for its "boom to bust" commercial cycle. Manufacturers pour in research and development funds to develop product which can be sold at a premium price. As the technology matures, prices fall. Manufacturers, therefore, have to cream off the profits in the early stages of a chip's life. The hope is that competition will reduce the number of players in the market, giving survivors a better chance of profitability.

Entry into the emerging market for flash memories, devices that are eventually expected to replace disk drives at the data achieved, the two companies will jointly spend \$700m on a 50-50 joint venture to manufacture flash memory devices. AMD has the technology for flash memory devices, but lacks the resources to build on its own a facility of the scale required. Fujitsu, on the other hand, lacks the technology for flash memory. But it does have the expertise in semiconductor manufacturing, the capital to invest, and access to the Japanese market.

At the same time, the two companies will jointly spend \$700m on a 50-50 joint venture to manufacture flash memory devices. AMD has the technology for flash memory devices, but lacks the resources to build on its own a facility of the scale required. Fujitsu, on the other hand, lacks the technology for flash memory. But it does have the expertise in semiconductor manufacturing, the capital to invest, and access to the Japanese market.

Joining forces with Fujitsu would allow AMD to save costs and turn a competitor into a partner

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OBSERVER



"Perhaps Ross Perot isn't the Texan billionaire we thought he was"

place since then. Are the authorities relenting? It doesn't appear so. Although their product may be sold to foreigners, two executives of a bottled water company have been arrested for illegally peddling the precious liquid to fellow countrymen. The police say they are flushing out other cases.

Bad chemistry

■ Ken Schofield and Mike Marshall, two of the better known personalities in Britain's chemical industry, have one thing in common. They both made a lot of money selling their chemical companies and ending up as boss of the company that bought them out. However, the similarities end there.

Yesterday Ellis & Everard turned 49-year-old Marshall out of his chair and recalled a 64-year-old member of one of the founding families, Simon Everard, who had been doing the job for eight years until 1980.

Ellis & Everard is going through a rough patch but is not in as dicey a position as

Hickson was when Schofield took the helm. Perhaps that's part of the problem, since Schofield saved Hickson and is now working his magic on MTA. Marshall has had less time to prove himself.

Nevertheless, it's a bit of a surprise that Marshall has been shown the door, especially since he owns five times as many shares as the rest of the board put together. It all seems a bit odd since it was Everard who anointed Marshall as his own successor.

It already manages billions of pounds of Arab money and won favour with Sir Peter by showing a stiff upper lip during the Gulf war; it kept its Bahrain office fully manned, while other western businesses based in the Gulf headed homeward.

Sir Peter is not planning to

take up any other business appointments. Though his main role at Fleming will be to advise on Middle Eastern politics, John Manser,

Fleming's chief executive, is also looking for some practical advice. For example, how can Fleming executives negotiate the maze of Saudi airport customs procedures in less than the traditional two hours.

Eau no

■ It is illegal for South Koreans to buy bottled water. This little infringement on their liberty is creating a ticklish problem. For pollution is increasing in the river Han, the main source of drinking water for the residents of Seoul.

The rationale for the 20-year-old law is that bottled water poses a threat to social harmony; those who couldn't afford it would harbour ill-will against those that could.

But that was two decades ago and South Korea has become a much more affluent

country. The Bank of Boston is doing its bit to encourage more voters to register their preferences in this year's presidential elections – and, incidentally, to boost new business at the same time.

Yesterday, it introduced a certificate of deposit – imaginatively entitled the "Washington CD" – that will pay out a higher return to holders if election day voter turnout in the state exceeds 1988 levels.

The CD, which will carry

a 5.25 per cent interest rate

in December, will pay out 5.35

per cent if more than the 82

per cent of Massachusetts-registered voters who turned out at the last election make it to the polling booths on November 3.

Ameritech began as the parent of the Bell companies that serve the Midwest, the most information-intense area of the United States. Recognized as a leading communications company, Ameritech is a \$22 billion corporation that today brings its technological leadership and financial strength to all corners of the world.

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behind such innovative projects as bringing cellular technology to Poland, acquiring the Telecom Corporation of New Zealand and expanding a host of international services.

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LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Only one measure of incentives

From Mr Philip Crofton.

Sir, As one who has designed many top management incentive plans I was interested to read ("Shareholder group calls for changes to stock option plans", July 6) that the National Association of Pension Funds is studying alternatives, such as share price, to the earnings per share (eps) criterion used in many such schemes on the grounds that eps calculations are too easily subject to manipulation by top management.

It is vital that any measurement standard used in determining incentive awards is one that both management and shareholders can influence by their efforts and whose achievement will jointly benefit management and owners. Earnings per share is the only criterion that meets these requirements. Share price certainly does not and the relationship between corporate performance and share price has long been established as a

backward-looking comparison, average earnings figures of 6 per cent or more in 1992 will be a factor in what they decide. So cutbacks here are likely too.

But it was only last year that

the government set up the Teachers' Pay Review Body,

and, indeed, on the same day

as they cut top pay, they

announced an independent review of dental remuneration.

So while the government has

sent out a clear signal on its

responsibilities for "managing the economy", confusion is

beginning to develop on how it

intends in future to discharge its responsibilities as the single

largest employer. If the present arrangements are an anachronism, they need replacing with something more appropriate.

Chris Trinder,

research director,

Public Finance Foundation,

3 Robert Street,

London WC1N 6BH

Government as an employer showing signs of confusion

From Mr Chris Trinder.

Sir, In "Top public pay rises cut to 4 per cent" (July 10), the focus is on the immediate consequences of the rebuff of the Top Salaries Review Body recommendations, but the longer term significance of the government's decision may be of greater importance.

The scale of the reductions and the decision to stage over several years is not minor tinkering. So the "signal" being sent out might this week

embrace the 120,000 police officers whose September 1 1992 pay rise under the Edmund-Davies formula is triggered by the figures on the increase in average earnings in May 1992 which are published on July 16 and are expected to show a rise of 6.5 per cent.

Also, early in 1993, the review bodies on teachers, nurses, doctors and armed forces will recommend pay rises for 1.5m other public servants for the financial year

1993-94 and because they use backward-looking comparisons, average earnings figures of 6 per cent or more in 1992 will be a factor in what they decide. So cutbacks here are likely too.

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Interest rate signal in Germany

From S J Green.

Sir, Your leader ("A beleaguered government", July 7) seemed to share the consensus view that German interest rates would be slow to come down.

Obviously, your leader writer had not read the reports of Volke Rübe's meeting with Conservative MPs in which he said that another 5,000 unemployed in the western part of Germany was not significant in the context of 4m unemployed in the eastern part. His figures on unemployment are almost certainly more accurate than the more official statistics.

Taken together with the federal elections due in 1994, they provide a strong indication that German interest rates will be cut sooner rather than later and that the cuts when they come will be significant.

S J Green,

director,

Fraser Green,

2 Friars Lane,

Richmond,

Surry TW19 1NL

A lesson in protectionism

From Mr Mark Popiel.

Sir, If Ronald Dore ("Preaching pragmatism to free trade church", July 8) thinks British bureaucrats have come up with something new in the way of a sensible and prag-

matic form of protectionism", he is sadly mistaken. What

Tuesday July 14 1992

Choice of Senator Al Gore gives Democratic campaign some momentum

Clinton's popularity increases

By Jurek Martin In New York

GOVERNOR Bill Clinton took to the streets of New York yesterday before the opening of the Democratic party convention secure in the knowledge that he is no longer last in the polls.

A fistful of opinion surveys released in the previous 24 hours put him at least level with President George Bush and generally ahead of Mr Ross Perot, the prospective independent presidential candidate, whose support is beginning to show real signs of erosion.

This is important for Mr Clinton, as he awaits the Democrats' formal nomination on Wednesday night, because of the real fear a

month ago that he would come to the convention in a poor third place, thus exciting the sort of internecine warfare for which his party is notorious.

The New York Times/CBS poll yesterday had Mr Bush in a narrow lead at 33 per cent, to Mr Clinton's 30 per cent and Mr Perot's 25 per cent. More significant than the bald numbers, this and other surveys report a increase in Mr Clinton's personal standing in the last month.

A Newsweek survey found that 38 per cent said they were now more likely to vote for him than a month ago, with 44 per cent saying that the choice of Senator Al Gore as running mate also made them more likely to sup-

port him. The Times poll found Mr Gore with a much more positive image than vice-president Dan Quayle.

The Clinton-Gore ticket, therefore, has a temporary, if not overwhelming, degree of momentum, which has in turn helped suppress internal dissent. Only Mr Jerry Brown, the former governor of California and Mr Clinton's erstwhile primary opponent, was withholding his endorsement yesterday.

Mr Clinton began his day with morning jog, followed separately by Mr Gore, and went on to an open air "town meeting", in which he answered questions from all and sundry.

It looks as if Mr Clinton will

have the week's headlines pretty much to himself. Mr Bush was fishing in Maine yesterday and his appearance at an all-star baseball game in California tonight is hardly a distraction.

Mr Perot is struggling to combat the adverse reaction to what were widely considered patronising remarks over the weekend to the meeting of the National Association for the Advancement of Coloured Peoples.

His press secretary has been forced to apologise for "his unfortunate choice of words," in addressing his black audience as "you people".

Unity and hope make a tentative appearance, Page 8

Life in ruins: Croatian family returns to what is left of their home in Slovenski Brod after heavy shelling from the Serbs

Serbs pledge not to cede 'one inch'

By Laura Silber in Belgrade
and agencies

SERB FORCES yesterday stepped up their offensive throughout Bosnia following a pledge by Mr Radovan Bozovic, the Serbian prime minister, never to cede "one inch of territory" inhabited by Serbs.

At the same time, General Lewis Mackenzie, the United Nations commander in Sarajevo, warned of the perils faced by international relief flights when flying into the besieged Bosnian capital, after three French aircraft were hit last week on their final approach to the airport. Gen Mackenzie told journalists he had

informed western governments of the dangers of the aid missions.

Fourteen out of 20 scheduled flights had arrived in Sarajevo by yesterday afternoon.

Italian warships taking part in an international naval operation to enforce UN sanctions against Serbia have meanwhile begun interrogating freighters entering the Adriatic.

Admiral Achille Zanoni, commander of Italian naval forces in the Adriatic, told reporters of the action as US and European vessels approached the region to beef up the patrol aimed at tightening sanctions against Serbia.

Despite the international pressure, Mr Radovan Bozovic, the

Serbian prime minister, said Serbia would continue to support Bosnia's Serbs. "Who has the right to call it aggression when citizens defend their hearths, their homes and their villages?" Mr Bozovic was quoted as saying by Politika, the Serbian daily.

"Serbs in Bosnia would never be forgotten," he added, vowing that "Serbs and the Serbian people could not be bought by blackmail or severe economic sanctions." The UN on May 31 imposed sanctions, including an oil embargo, on Serbia for its role in the fighting in Bosnia.

Serb forces continued to fight the mainly Moslem and Croat Bosnian forces yesterday to try to

link Serb-controlled territories in Bosnia with Serbia.

Belgrade radio said the Serbian army was within three days of capturing Ondak, in northern Bosnia. Meanwhile Serb forces were advancing in Herzegovina, in the west of the republic, the radio said.

Croatia, whose forces have been carrying out offensives to capture territory in the west and north of Bosnia-Herzegovina, yesterday asked the Security Council to call an emergency meeting to authorise military action in order to stop atrocities in the republic.

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FINANCIAL TIMES

COMPANIES & MARKETS

Tuesday July 14 1992



INSIDE

DAF in talks for £120m loan

DAF, the loss-making Dutch truckmaker in which British Aerospace has a 16 per cent stake, is in final negotiations to secure loans of £120m (\$116m) to strengthen its balance sheet. The company, which incurred a net deficit last year of £134.5m, compared with a loss of £122m a year earlier, said it was also looking at "various other opportunities" for additional financing. Page 20

Timkins rises 18% to £132m

Timkins, the UK industrial conglomerate with interests from bathroom fittings and reinforced shoes to hand-guns and mechanical valves, yesterday reported an 18 per cent rise in profits after the increased contribution from Philips Industries of the US which it bought in 1990. Pre-tax profits in the six months to May 2 rose from £112.09m to £132.11m (£254.2m). Page 24; Lex, Page 18

Food for thought

A breakthrough in the breeding of Africa's most widely grown staple food, cassava, has led to the development of a high-yielding variety which could survive in drought conditions and be the continent's most important hope for overcoming famine. Page 26

All eyes on the Bundesbank

The weakness of the dollar and concern about the German economy subdued European bourses last week. Some analysts expect activity in Europe to remain dull ahead of Thursday's meeting of the Bundesbank central council at which it will review its monetary target for 1992. Back Page

Italian food sale

SIME, the Italian state-controlled foods and retailing group, is one of Italy's most appealing privatisation candidates. However, Mr Mario Ariati, chief executive, is opposed to a sale. But if SIME is to be privatised, he says, it should be in one piece. Page 20

Home-grown demand for gilt

Domestic institutions rather than overseas investors are now supporting the UK government's borrowing programme. Gilt sales to domestic investors totalled \$6.6bn (£4.6bn) in April and May, against just \$3.8bn to overseas investors. Page 23

Gambling pays off

Hilton Hotels, the California-based casino and lodging group, reported second quarter profits of \$32.4m up from \$23.3m in the same period a year earlier. Gaming reported a 48 per cent advance to \$37.7m and all four of its Nevada gaming properties fared well. Page 21

Hard on soft drinks

Seagram, one of the world's biggest producers of hard liquor, has embarked on an ambitious drive to become a global player in the orange juice business. The Canadian company - best known for its Glenlivet, Chivas Regal and Martell labels - got into fruit juice in a big way in 1988 with the \$1.2bn acquisition of Tropicana, a leading US producer of orange juice. Page 22

Drop of wine producer

Recession and reduced margins were blamed by Matthew Clark, the UK wine and sherry producer and drinks distributor, for a 16 per cent drop from £5.62m to £4.55m (£8.8m) in annual pre-tax profits. Page 25

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Chief price changes yesterday

FRANKFURT (DM)			
Patent	- 8.5	First Charge	27% - 1%
Deutsche Bank	- 8.5	Spartan Metals	35% - 4%
Douglas	- 8.5	TOKYO (Yen)	13% - 6%
Lohmann	- 30		
Porsche	- 14.5		
Rheinkredit	- 10.5		
Wieser	- 26		
Alcoa	+ 1.2	Kuhn Bauen	25% + 24%
CentraMedcon	+ 1.9	Mitsubishi Electric	22% + 59%
BRI	+ 4.2	Mitsui Metal	22% + 36%
Patels	- 1.2	Siemens	22% + 82%
Chase Manhattan	- 1.2	Shimura Kako	55% + 40%
Parsons	- 1.2		

LONDON (Pence)			
Adcom	31 + 2.2	Elite Events	172 - 11
Acorn Computer	- 1.2	Glenrothes	890 - 20
Ageas	43 + 4	HTV	48 - 6
Alfred Dunhill	38 + 5	Hardys Hems	300 - 20
Comstar	33 + 2.2	Ici	1143 - 20
Fisons	205 + 16	Imbo	93 - 5
Stc Platforms	35 + 6	Johnson	388 - 10
TSB	148 + 11	Pearson	351 - 12
Timmins	470 + 11	Police	107 - 9
Carls Foods	103 - 15	Sloane Est	125 - 15
Comac	32 - 4	Smiths (NH) A	405 - 12
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FINANCIAL TIMES

COMPANIES & MARKETS

Tuesday July 14 1992

Chinese buy 10% stake in Cathay

By Simon Holberton
in Hong Kong

per cent share in the airline and a seat on the company's board.

The sale ends Hongkong Bank's direct financial involvement in Cathay. It was an early supporter of the airline, which was founded soon after the Second World War. By 1983, the bank owned 30 per cent of Cathay but has since reduced its interest.

The Chinese holding, together with that owned by Beijing-controlled CITIC Pacific, takes China's disclosed interest in Cathay to 22.5 per cent.

In Hong Kong, which reverts to Chinese sovereignty in 1997, the purchase was seen as a further safeguard of Cathay's business interests. It may also help mitigate the tension between Cathay and China's civil aviation administration.

Mr Peter Sutich, Cathay's chairman, said the company was pleased to have CNAC and CTS as shareholders. "Their involvement... reflects the increasing co-operation between airlines in Hong Kong and aviation and tourism interests in the People's Republic of China."

The bank said it made an exceptional profit of HK\$3.16bn on the transaction. It sold its 143.4m shares in Cathay for HK\$11.80 - HK10 cents lower than Friday's closing price.

Mr William Purves, Hongkong and Shanghai Bank chairman, said it had been the bank's intention to retain a long-term investment in Cathay, but aviation was not one of the bank's core activities.

Cathay approached the bank about four months ago on behalf of the two companies. The bank was initially reluctant to sell, but, according to one executive close to the deal, assessed that an increase of the Chinese stake in Cathay was in the airline's best interest.

The bank's share price rose strongly on the announcement, closing HK\$3 higher at HK\$72. Cathay's share price ended HK70 cents higher at HK\$12.80. Lex, Page 16

US banks show signs of recovery

By Alan Friedman in New York

SIGNS of recovery among big US commercial banks emerged yesterday as improved second-quarter earnings were unveiled by JP Morgan, Chase Manhattan and First Chicago.

Mr Jim McDermott, president of New York bank analysts Keefe Bruyette, said yesterday's figures "set the tone for what is likely to be the trend among major US banks, a range from firm to strong recovery".

JP Morgan, the blue-chip New York institution that has consistently bucked the sector's trend, led the way yesterday with a 67 per cent rise in second-quarter net profits, to \$385m. Earnings per share increased to \$1.94 for the three-month period, from \$1.17 a year ago.

While Morgan achieved strong revenue growth in each of its main businesses, the second-quarter net profit figure was boosted by a \$12m pre-tax gain from the sale of Mexican government securities acquired during refinancings in 1988 and 1989.

Although the after-tax impact of the gain was not disclosed, analysts estimated the bank's second-quarter profit would have improved by less than a third had the gain been stripped out.

Chase Manhattan, the New York commercial banking group, produced a 15.1 per cent improvement in its second-quarter earnings, to \$163m. Earnings per share were 83 cents, against 50 cents last year.

First Chicago, also in a recovery phase, announced a 19 per cent increase in second-quarter net income, to \$88.2m. Earnings per share at the bank were 78 cents against 73 cents a year ago.

Company insiders say the decision to end negotiations was taken by the entire board. Lord Forte was not at the meeting because he had broken his ankle, and although Mr Rocco Forte offered his father advice, insiders say Lord Forte is too old to have a different plan for Forte Airport Services, which provides in-flight catering for airlines. When market conditions improve, he would like to see this business floated, with Forte retaining a stake.

The sale of Gardner Merchant would allow Forte to cut costs substantially. Mr Forte says the group last year reduced fixed and variable costs by 28%, but that the tenacity of the UK recession has improved by less than a third had the gain been stripped out.

Contract catering, he argues, does not fit in well with the rest of Forte's activities. "It has a very different customer base. In contract catering, we're actually not dealing directly with the consumers. We're dealing with a client. To a great degree we're in the hands of the client in terms of what we can deliver."

Mr Forte will now look for buyers who will keep the division together. He would like to find a buyer for Gardner Merchant, which provides canteen meals.

He has different plans for Forte Airport Services, which provides in-flight catering for airlines.

When market conditions improve, he would like to see this business floated, with Forte retaining a stake.

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He will not give details, but it is clear that the group is looking at the usefulness of having headquarters for each of its businesses. Reducing the role of divisional headquarters would inevitably focus greater attention on Forte's group leadership and on Mr Forte himself.

"Poor old Rocco is trapped,"

It is not true, he says, as some newspaper reports have suggested, that the contract catering deal fell through because of his indecisiveness.



Insufficient reason to hold on to the business.

"The idea that it has served us well in the recession is true, but it's such a small proportion of our total results that it doesn't have that big an impact," he says.

Several large institutional shareholders appear to be sticking with Forte and are unperturbed by the collapse of the contract catering sale. "The fact that they can afford to do so. Discussion of the market's disenchantment with Forte should not be overdone. The shares have done no more than keep pace with analysts' revisions of Forte's prospects.

A few months ago Forte had been expecting pre-tax profits of \$140m for the current year. The group is now expected to make pre-tax profits of \$90m. With 1992 earnings per share expected to be 7p, the company's prospective price-earnings ratio is still an expensive 24.3.

"It's still a blue-eyed stock," says Mr Peter Joseph of Smith New Court.

Several large institutional shareholders appear to be sticking with Forte and are unperturbed by the collapse of the contract catering sale. "The fact that they can afford to do so. Discussion of the market's disenchantment with Forte should not be overdone. The shares have done no more than keep pace with analysts' revisions of Forte's prospects.

Some followers of the company believe this is a mistake. The contract catering business has withstood the recession better than any of Forte's other activities. While hotel trading profits fell 33 per cent to \$78m last year and those from restaurants dropped 15 per

INTERNATIONAL COMPANIES AND FINANCE

DAF in final negotiations to secure Fl 200m loans

By John Griffiths in London

DAF, the loss-making Dutch truck-maker in which British Aerospace has a 16 per cent stake, is in final negotiations to secure loans of Fl 200m (\$11m) from a Dutch and a Belgian bank as part of efforts to strengthen its balance sheet.

The company, which recorded a net deficit last year of Fl 139.5m, compared with a loss of Fl 229m a year earlier, said yesterday it was also looking at "various other opportunities" for additional financing, which could bring the total injection of new cash to Fl 300m.

DAF is expected to conclude

agreements with the Dutch National Investment Bank and the NMKN commercial bank of Belgium within the next few weeks. The National Investment Bank loan, for Fl 100m, is expected to be subordinated from the Dutch government.

The NMKN loan, also for Fl 100m, will also carry some guarantees from the Belgian government. The latter is concerned for the welfare of DAF's manufacturing presence in Belgium, notably its Westerlo axles plant near the Dutch border which employs 2,000.

With most European trucks markets continuing to be depressed, speculation was being discounted last night that BAe might use any

strengthening of DAF's share price arising from the refinancing to dispose of its own holding in DAF.

DAF's financial performance is the weakest of the leading European truck-makers, largely due to its dependence on the UK truck market, which has suffered the steepest slide into recession since the second world war.

The heavy losses of the past two years have seriously weakened its balance sheet. Group capital and reserves have declined to only 26.3 per cent of total assets from 34 per cent in 1988-89, in spite of the proceeds of a Fl 250m convertible preference share issue last autumn.

Net income at Banco Popular rises to Pta27.8bn

By Peter Bruce in Madrid

BANCO POPULAR, the Spanish commercial bank, yesterday reported net income of Pta27.8bn (\$288m) for the first half of 1992, an 18.9 per cent increase on the first six months of last year. Pre-tax income rose 12 per cent to Pta43.9bn.

The bank said that excluding an extraordinary gain of Pta1.8bn from the sale of a banking subsidiary, ordinary net income had grown 12 per cent in the first half.

Popular is recognised as one of the world's most profitable banks and the relatively slow growth in profits, it said, should be seen in the light of a sharp slowdown in the Spanish economy this year.

The bank said first half net interest income had grown by 5.8 per cent to Pta74.3bn and by 2.8 per cent since the end of the first quarter.

Ordinary operating income, which grew 4.2 per cent in the first half, to Pta53.9bn, had grown just 1.4 per cent in the second quarter.

Ellis & Everard shares slide as chairman quits

By Angus Foster in London

SHARES in UK chemicals distributor Ellis & Everard fell 13p, or 7 per cent, to 172p yesterday following the departure of Mr Michael Marshall, executive chairman since 1990, due to "management differences".

Mr Marshall, who built up a private chemicals company in the early 1980s, joined Ellis & Everard in 1986. He is temporarily replaced by Mr Simon Everard, a former chairman.

"Mike was a successful entrepreneur. But building a private company and being a chairman of a PLC is different," Mr Everard said. Advisers to the company said there had been a clash of styles. Mr Marshall, who left the company on Friday, said he was very surprised. "It's all happened very suddenly in the last week," he said.

Ellis & Everard announced the shake-up along with lower-than-expected profits for last year, dragged down by margin pressures and a poor performance from its swimming pool chemicals division.

But Mr Everard said the company's problems were in no way similar to those of MTM, the specialist chemicals manufacturer which saw its shares collapse earlier this year following the chairman's resignation and a profit warning. "Mr Marshall's departure is in no way results-related," Mr Everard said.

Pre-tax profits fell to £12.8m in the year to April 30, from £17.5m. Operating profits for the pools division fell by more than £1m.

In the US, squeezed margins, combined with rising healthcare and insurance costs, led to a profits fall of 23.5 per cent to \$8.2m. Turnover increased 7.1 per cent to \$363.4m, helped by acquisitions in Ireland and Spain and the exchange rate.

There were extraordinary items of \$9.5m, although £8.2m related to goodwill previously written off against reserves. The remaining £1.3m of provisions covered losses incurred on the disposal of two subsidiaries and a third which is for sale.

Earnings per share fell from 15.9p to 11.5p. An unchanged final dividend of 4.5p is recommended, to give a maintained total of 7.05p.

Mr Peter Wood, group managing director, said trading had improved since the year-end.

Profits for the last three months were ahead of a year ago, he said.

Details, Page 24
Observer, Page 17

Foods group whets appetites for a sell-off

SME, the Italian state-controlled foods and retailing group, is one of Italy's most appealing privatisation candidates. With Mr Giuliano Amato's new government apparently more serious about asset sales to slash the budget deficit, SME's time may have come.

The deal with Barilla, which

brought an opening 49 per cent stake, allowed for the transfer of full control by 1993 at an agreed price of L240bn. Last month, the terms were altered slightly: Barilla bought a further 10 per cent for L80bn, giving it majority ownership ahead of schedule, and the two sides look set to conclude the full sale by next January.

The group, which is 62 per cent-owned by the IRI state holding company, made net profits of L125.6bn (\$111m) after minorities last year on sales of L814bn. In none of the three areas in which it operates is it on a par with Europe's leaders. Food retailing, SME's biggest business and probably the most attractive to potential buyers, with sales of almost L2.500bn in 1991, is concentrated in the 22-store GS supermarket chain.

Restaurants and catering, the smallest of SME's activities, with turnover of just over L1.000bn, could also be appealing, although the loss-making Motta operation could be hard for buyers to digest. Meanwhile, food production, with 1991 revenues of more than L2.300bn, remains SME's most difficult nut to crack. While the Italgal frozen foods subsidiary performs strongly, the CBD canned foods and oils side is still losing money.

Privatisation is already

under way. Last month saw the second stage in a three-step deal to transfer control of SME's Pavese confectionery arm to Barilla, the big private pasta group. Pavese is the best-known of the four loss-making subsidiaries spun off into joint ventures with the private sector in 1990 in an attempt to improve profitability.

The idea was to concentrate on a smaller number of businesses," says Mr Mario Artali, SME's chief executive for the

past two years. With current sales of almost L280bn, Pavese has been by far the most successful of the four.

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giving it majority ownership

ahead of schedule, and the

two sides look set to conclude

the full sale by next January.

Mr Artali admits that Pai,

Adams and Nuova Forneria,

the three other joint ventures,

are not going so well, and full

disposals probably remain

dependent on a return to profitabil-

ity. However, he stresses

food production is no longer

the "nightmare" it was when

he joined. Setting up the joint

ventures helped SME to con-

centrate on a smaller number

of businesses, and progress has

been made on improving earnings

on the industrial side, partly

by branching out into fresh

milks.

The Pavese sale has given

SME the financial cushion to

complete the restructuring of

its food industry side, he says.

By re-jigging the deal last

month to avoid bunching capital

gains into one tax year, SME

can look forward to substantial

extraordinary earnings for the

next two years, giving it time to tackle remaining problems in food production.

Mr Artali doubts further

piecemeal privatisation is on

the cards. Any decision to sell

would have to come from the

government via IRI. However,

he makes clear his opposition

to a sale. And if SME is to be

privatised at all, it should be in

one piece. Breaking the busi-

nesses up "has no sense", he

says. "SME is too small, not

too big," Mr Artali cites Spain.

Acquisitions could accelerate

matters. SME has already inte-

grated two small supermarket

chains bought in the past two

years. And Mr Artali would

also like to set up more hyper-

markets: the first is opening

this year and plans call for

around two launches a year.

Autogrill is also set to expand

its food retailing and catering

businesses, the traditional motor-

way services business plan to

expand abroad, while new

domestic growth is expected

through opening restaurants in

new locations such as shop-

ping centres. The company is

even considering joint ven-

-tures - an unprecedented step

- and looking at eastern

Europe, where the motorway

network and related services

offer prospects to expand.

Mr Artali recognises the size

of barriers to his plans. With

only around 20 supermarket

chains in Italy, chances for

growth through acquisitions

are limited. Moreover, prices

are already sky-high and there

are few sellers. Meanwhile,

the pace of organic growth for both

supermarkets and hypermar-

kets is restricted by planning

rules and small retailers busi-

nesses.

SME currently has about 8

per cent of the food retailing

market in Italy. But although

its GS chain ranks second only

to the country's big co-oper-

atives in food sales. Mr Artali

thinks it is "not sufficient".

Growth will come through

expanding GS, concentrated in

Piedmont and Lombardy in the

north and Lazio and Campania

in the south, into other parts of

the country while filling in

gaps where it is already well

represented. The aim is to cre-

ate new regional centres with

sales of between L200bn and

L300bn, he says.

Acquisitions could accelerate

matters. SME has already inte-

grated two small supermarket

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this year and plans call for

VENTURE CAPITAL

The FT proposes to publish this survey on September 25 1992.

If you would like to reach the Financial Times audience, which includes the highest readership in Europe of senior business executives within finance and accounting*, please contact:

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Data source: * European Business Readership Survey 1991

FT SURVEYS

KLOOF GOLD MINING COMPANY LIMITED
(*"Kloof"*)
(Registration No. 64/04462/06)
LIBANON GOLD MINING COMPANY LIMITED
(*"Libanon"*)
(Registration No. 05/08381/06)
VENTERSPOST GOLD MINING COMPANY LIMITED
(*"Venterspost"*)
(Registration No. 05/05632/06)

(All companies incorporated in the Republic of South Africa)

PROPOSED INTEGRATION OF OPERATIONS

Further to the joint cautionary announcement which was released on 15 June and published in the press on 19 June 1992, shareholders of Kloof, Libanon and Venterspost are advised that agreement has been reached, subject to the necessary approvals, on proposals regarding the integration of the operations of these companies' mines.

BRIEFING NOTE FOR THE PROPOSALS

Venterspost has continued to incur material working losses. Due to the prevailing gold price and its uncertain outcome in the short-term, the closure of its operations is inevitable. The closure of the Venterspost mine would seriously jeopardise the operations of adjacent Libanon.

Libanon's financial position deteriorated further in the year ended 30 June 1992 and it remains vulnerable to the present low gold price and working cost increases. The potential need to incur major additional expenditure to pump the Venterspost water threatens continued operations.

Libonan's position is such that without the proposed sale of the proposed factoring the future operations, in particular will expose Kloof to the risk of substantial influx of water within a relatively short time. Kloof would need to increase its pumping capacity materially. This would be costly and would severely disrupt mining operations.

Gold Fields of South Africa Limited, the technical advisers to the three companies concerned, have considered various alternatives to resolve the problems facing these companies. The most viable and cost effective solution recommended is the integration of the operations of the companies' mines.

INTEGRATED OPERATION

The integrated operation would be managed as three divisions i.e. the existing Kloof and Leedooorn divisions and a third division based largely at Libanon, but including limited mining at Venterspost, which would operate at the Libanon site. The new arrangement will allow the proposed factoring the future operations. In particular it would enable consolidated operations at Libanon and Venterspost, albeit on a limited scale. Furthermore, the potential disruption to Kloof's operations would be avoided. Utilisation of the existing mining infrastructure and/or resources would be improved. All this would be achievable within a tax efficient corporate structure.

MINING AUTHORISATION

The Department of Mineral and Energy Affairs has granted a Mining Authorisation over the integrated areas, subject to the approval of these proposals by shareholders.

TERMS OF THE PROPOSALS

Subject to the necessary approvals of shareholders and the Supreme Court, it is proposed to merge the operations of Kloof, Libanon and Venterspost by means of schemes of arrangement on the following basis:

Liberon shareholders will be allocated 9 Kloof shares for every 100 Libanon shares held;

Venterspost shareholders will be allocated 6 Kloof shares for every 100 Venterspost shares held;

Venterspost option holders will be entitled to subscribe for 6 Kloof shares at R108.33 per share during November 1992 for every 100 Venterspost shares held.

The terms of the proposed merger are 32% and 37% for Libanon and Venterspost respectively over the rates prevailing at the close of business on the day preceding the issue of the cautionary announcement.

The boards of Kloof, Libanon and Venterspost have agreed to recommend the proposals and Gold Fields of South Africa Limited has indicated that it will accept the above terms in respect of the shares held by it and its subsidiaries in Libanon and Venterspost.

INDEPENDENT ADVISERS

Standard Merchant Bank Limited has reviewed the proposals on behalf of Libanon and Venterspost and has confirmed that in its opinion the terms fair and reasonable.

EMPLOYEES

The impact on employees of the proposed schemes of arrangement will be reduced by efforts to secure offers of employment for employees at other operations within the Gold Fields Group.

BENEFITS

The proposed integration:

- allows mining to continue at Libanon and to a limited extent at Venterspost;
- overcomes Kloof's pumping problems in the short and long term;
- avoids a potential major disruption to Kloof's operations;
- avoids capital expenditure by maximising the utilisation of the existing mining infrastructure;
- provides the potential to increase profits from the combined area by maximising the extraction of gold;
- enables the combined area to be treated as one mine for tax purposes;
- benefits the shareholders of Kloof, Libanon and Venterspost, the State and the companies' employees.

DOCUMENTATION

A circular, which is subject to the approval of the Johannesburg Stock Exchange, the Securities Regulation Panel and the London Stock Exchange, containing full details of the proposals and incorporating the financial effects of such proposals, together with notices convening meetings of the shareholders as well as option holders of Venterspost, in order to obtain the necessary approvals, will be posted within 30 days of this announcement.

An announcement regarding the salient dates pertaining to the proposals will be published in the press in due course.

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13 July 1992
Members of the Gold Fields Group

INTERNATIONAL COMPANIES AND FINANCE

NEWS IN BRIEF

EDI stake bought by Chinese

FUJIAN Provincial Light Industrial Import and Export Company, a Chinese state-owned group, has bought 40 per cent of EDI, a small US electronics company, Reuter reports.

The group is reported to have bought 40.53 per cent of EDI. The move would help China gain access to "the most modern technology, equipment and products in the field and help it elbow its way into the international high-tech market," according to China's Xinhua News Agency.

Fujian has acquired three seats on EDI's seven-member board of directors and will send senior personnel to join EDI management.

Japanese clothier to produce in China

TAKA-Q, a Japanese clothes manufacturer, will set up a joint venture next month to produce and sell men's and women's clothes in China, Reuter reports from Tokyo.

The joint venture, named Beijing Taka-Q Leimeng Fashion Company and capitalised at Y600m (\$4.8m), will be 51 per cent-owned by Taka-Q, 35 per cent by Beijing garment industry Group and the rest by two Japanese Taka-Q affiliates.

It plans to invest Y1.2bn, and start producing next January. A shop will open in Beijing in autumn 1993 with an annual sales target of Y300m in the first year and Y750m by 1994.

Banks lead rescue

SIX leading Japanese commercial banks are leading financial assistance efforts for Nichiboshi's mortgage securities affiliate Tokyo Mortgage Acceptance Corporation (MAC), AP-DJ reports from Tokyo.

The banks are expected to provide Y150bn in aid at low-interest financing.

Gold Fields of SA to merge units

By Philip Gavith in Johannesburg

GOLD Fields of South Africa, one of the country's largest mining houses, plans to merge the operations of two of its marginal gold mines, Libanon and Venterspost, with Kloof, one of the richest mines.

The merger arises from the precarious financial position of the Venterspost mine, which would otherwise be forced to close with severe knock-on implications for Libanon and Kloof. Mr Alan Munro, executive director, said: "The race against time has been lost."

The merger needs to be approved by shareholders.

Venterspost made losses of nearly R\$3m (\$3.25m) in the year to June, while its cash assets declined to R14m compared with R135m two years previously.

Libanon made less than R0.5m profit compared with

capital expenditure of R6.4m in the year to June. Kloof is one of the richest mines in the world, with an average grade of 13.5 grams per tonne in the year to June and working profit of R36m.

The three Western Transvaal mines are contiguous, and closure of the marginal operations would have created a serious water problem for Kloof. To deal with this problem, Kloof would have had to make investments of about R100m for new pumps.

It would have faced extra pumping costs of about R70m a year, and production losses of about R1bn, said Mr Munro. Pumping at Venterspost and Libanon will cost only about R45m a year.

The merger involves shareholders in Libanon and Venterspost being given shares in Kloof at a ratio of nine Kloof shares for every 100 Libanon shares and six Kloof shares for every 100 Venterspost shares.

Kloof will issue 6.6m shares, a dilution of about 5 per cent on the current issued share capital of 121m shares. This helped lift gold production by a tonne to 306,000 on Venterspost and Libanon.

Mr Munro said he was confident that the integrated operation could lift profits by the necessary 5 per cent in order to maintain the dividend at its current level.

If the deal gets shareholder approval the restructured Kloof will have three operating arms: the existing Kloof division, the new Leedooorn extension to Kloof and a composite Libanon/Venterspost operation.

The new division will produce at a rate of about 145,000 tonnes per month - significantly less than current joint production level of about 190,000 tonnes at the two mines.

• The gold mines in the Gold Fields group lifted their aver-

age grade to 3.6 grams per tonne in the June quarter, from 3.4 grams in the March quarter. This helped lift gold production by a tonne to 306,000 on Venterspost and Libanon.

The gold price received dropped to R21,086 per kg from R21,911 per kg in the March quarter. This saw working profit drop to R299m from R317m. A lower tax bill, due to a doubling in the level of capital expenditure, and higher sundry revenue helped push after-tax profit up to R287m from R205m in March.

• Doornfontein Gold Mining, a company managed by Gold Fields of South Africa, yesterday announced a net loss of R491m for the second quarter ending on June 30.

This is an improvement on the R7.01m net loss for the previous quarter. Gold output rose sharply from just over 1 tonne in the first quarter to 1.534 tonnes in the second quarter.

• The gold mines in the Gold Fields group lifted their aver-

Seagram goes hard on soft drinks

By Philip Rawstorne

SEAGRAM, one of the world's biggest producers of hard liquor, has embarked on an ambitious and aggressive drive to become a global player in the orange juice business.

The Canadian company - best known for its Glenlivet, Chivas Regal and Martell labels - got into fruit juice with the \$1.2bn acquisition of Tropicana International.

At the time of its takeover, Tropicana had annual sales of \$700m, mainly in the eastern half of the US. By the end of 1990 the brand was being distributed nationally with sales running at about \$1.2bn a year.

Tropicana leads the overall orange juice market in the US with an estimated volume share last year of 22 per cent. It claims to buy a quarter of Florida's orange crop. But the big way in 1988 with the \$1.2bn acquisition of a leading US producer of orange juice.

The deal marked Seagram's first large foray into non-alcoholic drinks.

"It was seen as a longer-term strategic investment, broadening Seagram's base in the beverage business," says Mr Myron Roeder, president of Tropicana International.

Fruit juices and juice-based drinks comprise the second largest grocery category in the US, with retail sales growing by close on 50 per cent over the past 10 years to \$11.8bn last year. Orange juice is worth

in excess of \$3bn a year.

Ten years ago, ready-to-drink juice accounted for 30 per cent of sales: the rest came from frozen concentrates. Today, ready-to-serve juice has a 36 per cent share of the US market, and Tropicana is the ready-to-serve brand leader.

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team has been set up in Paris. In France, Tropicana acquired Maxime Delrieu, a company which has handled its bottled juice exports for 25 years, and has signed a distribution agreement with Cedilac, a leading dairy company.

Tropicana has high hopes for Europe: the market is generally fragmented and unbranded, and annual consumption per head is barely half the 40 litres of the US. Mr Roeder sees no reason why similar growth should not be secured. "In every country we enter, our first aim is to be the leading advertiser in the category."

That makes Tropicana's expansion an expensive business and this is fully reflected in operating profits. In spite of strong sales, profits have been flat for the past three years.

After restructuring charges of \$24m last year, Seagram's income from the total juices, mixers and coolers operations amounted to \$79m against \$85m from spirits and wines.

the \$1.8bn UK market and ventured into France, but a pan-European framework has been established in anticipation of the single European market next year. A headquarters

FT GUIDE TO WORLD CURRENCIES

COUNTRY	£ STG	US \$	D-MARK	YEN	COUNTRY	£ STG	US \$	D-MARK	YEN	COUNTRY	£ STG	US \$	D-MARK	YEN
UK 1991	UK 1992													

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COMPANY NEWS: UK

US buy helps Tomkins to £132m

By Richard Gourlay

TOMKINS, the industrial conglomerate, reported an 18 per cent increase in full-year profits to £132m owing to the increased contribution from Philips Industries of the US which it bought in 1990.

Mr Greg Hutchings, chief executive of the company whose interests include bathroom fittings, reinforced shoes, Smith & Wesson hand-guns and mechanical valves, said that while there were no signs of any turnaround in the UK, Tomkins had a low cost base and high level of operational gearing which meant it would benefit strongly from the end of recession.

Pre-tax profits in the year to May 2 rose from £12m to £132m on sales 22 per cent ahead at £1.27bn. Earnings per share increased by 5 per cent to 27.63p. An increased final dividend of 8.12p (7.06p) is recommended, to give 11.34p for the year, up 15 per cent.

Tomkins has not made any substantial acquisitions since Philips and does not need another sizeable acquisition to meet its target of outperforming the UK market in earnings per share growth, he added.

The group ended the year with cash balances of £110m, up from £46m. This was achieved by squeezing cash from working capital at Philips and strong cash generation from its operating companies.

Capital expenditure of £55m during the year fell below the



Greg Hutchings: no need for another acquisition to help meet earnings targets

depreciation charge of £29m, although another £14m had been approved and not spent.

The results highlighted the benefits of the Philips acquisition, not only in terms of cash generation but also in having a spread of activities.

At the operating level Philips, which is now fully integrated and called Tomkins Industries, contributed about £50m. This was almost double the contribution in the 8½ months for which it was con-

solidated the previous year.

In particular, it had a surprisingly strong second half because US housing starts grew substantially faster than expected and sales of recreational vehicles increased.

The group also continued to enjoy strong growth in bicycle sales in the US, partly as a result of the weak dollar and import substitution, and also increased the exports of mowers to all time record.

Mr Ian Duncan, finance

director, said Tomkins had found many of Philips' operational managers were of good quality, but there was sloppy financial control, too much stock and antiquated computer systems.

The group's dependence on the US, which accounts for about 70 per cent of sales but less pre-tax profits, has raised the possibility that it could hit an advanced corporation tax problem in the UK.

See Lex

Ellis & Everard hit by weak prices

By Angus Foster

ELLIS & EVERARD, the chemicals distributor, yesterday announced a fall in profits despite an increase in turnover, as margins in the UK and US continued to come under pressure.

"It hasn't been the easiest of years," said Mr Stephen Bentley, finance director.

Pre-tax profits fell from £17.5m to £12.6m as chemical prices remained weak, especially in the US. At the interim stage turnover increased 10.8 per cent while pre-tax fell 29 per cent to £7.5m.

Premier (Spain), a 70 per cent owned subsidiary, the

acquisition of which in 1990 marked the company's entry into continental Europe, continued to disappoint and incurred a small loss.

But turnover increased to £383.4m (£257.5m), helped by acquisitions and the dollar exchange rate. In dollar terms, US turnover increased only 2.8 per cent while in sterling terms it increased 9.2 per cent.

Gross profits increased to £90.6m (£68.9m). But higher administrative expenses, including £1m of rationalisation costs, dragged operating profits down from £18.3m to £14.2m.

Net borrowings fell from £15.6m to £9.1m at the end of

the period with gearing at 14.3 per cent (35.4 per cent). But interest costs increased, partly due to short term cash flow needs, to £1.7m (£200,000).

Earnings per share fell to 11.5p (15.9p). An unchanged final dividend of 4.8p is proposed to make a maintained total of 7.06p.

• COMMENT

Despite the obvious parallels with MTM, Ellis & Everard's profit decline was expected and the company has not been dogged by questions about its accounting practices. Trading this year has already shown some improvement, especially from the swimming

pool division which benefited from a warm spring. Nevertheless, the chairman's departure cannot help the share price of a company which could still be some way from recovery.

Although this year's results will be helped by cost savings and will not be held back by discontinued businesses, last year's exchange gains will probably be reversed and margin recovery in the UK and US may take time. Forecast profits of £15m put the shares on 13.3 times, which is not expensive relative to the sector. But until the controversy dies down, and a successor to Mr Marshall found, the shares may go sideways at best.

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N.V. Nederlandse Administratie-en
Trustkantoor
Amsterdam, July 8, 1992

SHEARSON LEHMAN HUTTON HOLDINGS INC.

(Incorporated in Delaware)
US\$300,000,000
Floating rate notes due October 1996

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MFI gets applications for 44% of shares

By Maggie Urry

MFI FURNITURE Group, the kitchen and bedroom retailer, received applications for about 44 per cent of the 137m shares sold through the public offer portion of its flotation.

However, of these, applicants for 29 per cent were sub-underwriters who could offset applications against their underwriting commitment. That leaves only a 15 per cent take-up from outside buyers.

The group also placed 410.2m shares with institutions, and County NatWest, the bank sponsoring the float, sold them 89 per cent of the shares available were placed or applied for in the offer.

A final figure for applications will be announced on Wednesday, share certificates will be posted on Thursday and dealings are due to start on Friday.

Brokers expect an opening price of about 105p compared to the 115p issue price.

Postel agrees to accept offer for Boustead

By Richard Gourlay

POSTEL, the Post Office and Telecommunications pension fund, has given irrevocable undertakings to accept the recommended offer for Boustead, the trading company, from Jack Chia-MPE, the Singapore-based investment company.

The institution agreed to accept the version of chairman Mr Jack Chia's offer which should lead to him taking majority control and using Boustead's London quota for the European expansion of his group.

The offer comes in two parts: 35p for the first 60 per cent of Boustead shares held and 20p for the remainder. At the average price, the bid values Boustead at £20.3m and each share at 30.8p, some 2.3p above yesterday's unchanged closing price.

See Lex

WPP board issues ultimatum over the company's future

By Maggie Urry

SHAREHOLDERS in WPP, the marketing services group, have been offered a choice between supporting a capital restructuring or being left with nothing.

WPP said that shareholders would be left with nothing if this is forthcoming.

The choice was put to them in a circular posted yesterday by the board. The proposals will be put to a shareholders' meeting on August 5.

The circular also estimates profits of £14.2m for the six months to June 30 before tax and exceptional items, compared to £13m in the first half of 1991.

Exceptional charges of £1.2m (profits £3m) cut profits to £1.5m (£1.6m).

The charges include £1.3m of costs relating to the restructuring effect by asset sale profits of £200,000. Another £4.6m of restructuring costs are being charged to the balance sheet.

Mr Martin Sorrell, chief executive, said the profit figures represented a slight improvement though there was no significant upturn in economic activity.

The circular urges shareholders to approve the plan. If it is not passed, it will constitute "an event of default" leaving WPP dependent on the support of its bankers.

Brokers expect an opening price of about 105p compared to the 115p issue price.

See Lex

of its bankers. If this is forthcoming it is likely to be at terms which leave little or nothing for shareholders. If bankers refuse their support WPP said that shareholders would be left with nothing.

The circular gives details of the banking arrangements. WPP had net debt at June 22 of £490.2m. An existing multi-currency term facility for \$430m and a working capital facility of \$217m would continue after the restructuring and a bridge facility of \$150m has been set up, which WPP has already begun to use.

The banks have agreed to delay debt repayments due from 1993 onwards, with little to pay until 1997. The new facility will have to be repaid by making disposals or issuing shares.

Interest on the existing facilities will accrue at 2 per cent above London Inter-bank Offered Rate on the portion drawn, the rest paying a 1 per cent commitment fee. The bridge facility will accrue at Libor plus 2 per cent rising in steps after July 1 1992 to 4 per cent over Libor. The undrawn portion will also pay a 1 per cent fee. The banks will be paid a fee of 1 per cent of the existing facilities left after the convertible facilities and a 2 per cent fee on the bridge facility.

See People

Regalian sells Southwark asset for £5m below its book value

By Andrew Jack

REGALIAN PROPERTIES, the UK property company, yesterday announced the sale of Red Lion Court, a large office building situated on the Southwark riverside, for nearly £5m less than its book value.

The 128,000 sq ft building, adjacent to the Financial Times' editorial offices, was sold to an unnamed German investment company for £28.25m cash, compared with a book value of £32.3m.

Mr Robert Perdeux, finance director, said: "We're not happy, but that is the market price today. There was a lot of interest and that was the best we could do."

The property is let to Lloyds bank with 23 years remaining on the lease at 234 per sq ft. Regalian said the sale will create no tax liabilities, and the contract will be completed by the end of August.

Regalian will use the proceeds of the sale to reduce its borrowings from £130m at the end of the last financial year.

It has also generated nearly £1m from the sale of other commercial properties since that date.

Mr Perdeux confirmed that Red Lion Court was the last commercial property asset providing income for Regalian, but said the company still generated a "fair cashflow" from residential property.

That has reduced the rent by £10 to £17.50 per sq ft, as a result of the independent expert determination permitted under an rent review clause in the contract for the property.

See Lex

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DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
Ellis & Everard	£4.8	Oct 8	4.8	7.05	7.05
Matthew Clark	£9.25	Oct 8	8.25	15.75	14
Tomkins	£8.12f	Oct 9	7.08	11.34	9.86

COMPANY NEWS: UK

Matthew Clark declines 19% to £4.55m

By Andrew Bolger

CONTINUING recession and reduced margins were blamed by Matthew Clark, the wine and sherry producer and drinks distributor, for a 19 per cent drop from £5.62m to £4.55m in annual pre-tax profits.

The outcome was struck after exceptional charges of £249,000 (£111,000) relating to restructuring and abortive acquisition costs.

Sales of continuing businesses increased by 6 per cent to £28.5m in the year to April 30, boosted by new contracts and some trading down by consumers.

However, Mr Peter Alkens, chief executive, said pressure from multiple grocers and cash-and-carry chains had been unrelenting, squeezing the margin from 13 per cent to 11.4 per cent.

Mr Alkens said the group felt profit margins could not fall much lower, but he was not counting on any upturn in the UK economy before next April.

The company said it had gained significant share in the British sherry market during the year. This had been complemented by the launch of a premium range of Stone's sherries, capitalising on the strength of its ginger wine brand.

Among its agency brands, sales of Taiktinger were down 46 per cent in a depressed champagne market. Grand Marnier gained market share in the shrinking liqueur sector while De Kuyper maintained its position as the most widely distributed cherry brand.

Clark paid £1m for Strathmore, the Scottish bottled water brand, just after the April year-end.

Mr Alkens said: "The coming year will be one of consolidation, ensuring that both Strathmore and the company as a whole are well placed to develop the markets that we are addressing."

A new joint venture had begun with Inver House Distilleries to market and sell its Scotch whiskies, gin and vodka. The company's sales force had been reorganised to concentrate on key accounts and wholesalers.

Earnings per share increased



Peter Alkens: pressure from multiple grocers cuts margins from 13% to 11.4%

to 33.5p (29.5p), reflecting the acquisition of the minority interest in JE Mather. The final dividend is lifted to 9.5p giving a total for the year of 15.75p (14p).

COMMENT

Difficult Christmas trading came as an unpleasant surprise to analysts at the interim stage, so Mr Alkens was clearly determined yesterday not to sound falsely optimistic about what is clearly a tough market. His strategy of moving away from the low-margin multiples to supplying pubs, hotel and restaurants makes sense, as does the focus on selling to wholesalers, rather than individual outlets.

The company will concentrate on bedding in Strathmore, not least because other possible acquisition targets are only available at fancy prices. Forecast pre-tax profits of £5.2m put the shares, down 4p yesterday to 46p, on a prospective multiple of 12.5. The shares rose strongly after the Strathmore deal was announced, and seem fairly valued until the benefits of that purchase are confirmed.

East German Investment net asset value ahead

By Graham Deller

THE EAST German Investment Trust reported a net asset value of DM2.81 (89p) as at June 30 1992.

The outcome compared with asset values of DM2.78 12 months earlier and DM2.71 at the December 31 year-end.

The trust, which concentrates its portfolio in unquoted companies located or operating in the former east Germany, came to the market in February last year following a placing by County NatWest and Berliner Bank.

Net revenue for the six months to end-June dropped from DM1.87m to DM0.94m.

Earnings per share emerged at DM0.019, down from DM0.042 last time.

During the period under review, the trust invested DM54m in a further eight investments across a broad range of activities including white goods, television operations, property development, laboratories and building products.

This lifted its total investment to some DM55m across 13 unquoted companies - representing 55 per cent of total assets.

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£150,000,000 was issued on 10th July 1992 as the initial Tranche. In accordance with the terms and conditions of the Notes, notice is hereby given that for the three month interest period from (and including) 10th July 1992 to (but excluding) 12th October 1992 the Note will bear interest at a rate of 10.125 per cent per annum. The relevant interest payment date will be 12th October 1992. The coupon amount per £10,000.00 Note will be £1,306.02 payable against surrender of Coupon No. 0.

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By The Chase Manhattan Bank, N.A.
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Playing a variety of roles in natural resources

Peggy Hollinger and Kenneth Gooding investigate the investment career of Clive Smith

MR CLIVE SMITH, the Midlands entrepreneur known for his involvement in the flotation of several natural resource companies in London in the 1980s, is no stranger to litigation. Two legal actions have been taken out against him in the last six months.

Mr Smith has been involved in companies such as Butte Mining, a UK company in which Mr Smith was an investor. Globe agreed to buy Kingsway for \$19.5m on March 27, just two weeks after Proctor had paid \$2.3m for the Smiling Field. The next day, a prospectus for Globe's full stock market listing valued the Kentucky reserves at \$28.7m and the Texas asset at \$4.5m.

The prospectus does not mention Mr Smith's role in the transaction, although he was a

was taken over by Mr Hubert Perrot, the French investor, and renamed Concorde Energy.

The first piece of litigation to come to light in recent months concerned Butte Mining, which Mr Smith helped to float in 1987. The latest relates to the Big Smiling Field, a Kentucky oil property which was eventually sold to Globe Petroleum, a UK company in which Mr Smith was an investor. Globe has been suspended at 4½p since March.

On March 13 1991, Sun Glow Joint Ventures of the US sold the Kentucky property to Proctor Investments, which is registered in the British Virgin Islands, for \$2.3m (£1.2m) in cash and Globe shares.

Proctor's ultimate ownership is unclear, but Mr Smith actively negotiated the purchase. He also personally guaranteed Proctor's promise to buy back a \$450,000 tranche of the Globe shares.

Proctor failed to do so and Sun Glow is seeking payment from Mr Smith. He is contesting the legal action and last night said Proctor "is certainly not connected to me". However, he added that with so many interests overseas, it was difficult even for him to remember all the details.

Immediately after the purchase, Proctor transferred the field to Kingsway, another British Virgin Islands company, which had been formed

four months earlier and owned just one other, smaller asset in Texas.

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Proctor's ultimate ownership is unclear, but Mr Smith actively negotiated the purchase. He also personally guaranteed Proctor's promise to buy back a \$450,000 tranche of the Globe shares.

Proctor failed to do so and Sun Glow is seeking payment from Mr Smith. He is contesting the legal action and last night said Proctor "is certainly not connected to me". However, he added that with so many interests overseas, it was difficult even for him to remember all the details.

Immediately after the purchase, Proctor transferred the field to Kingsway, another British Virgin Islands company, which had been formed

four months earlier and owned just one other, smaller asset in Texas.

Globe agreed to buy Kingsway for \$19.5m on March 27, just two weeks after Proctor had paid \$2.3m for the Smiling Field. The next day, a prospectus for Globe's full stock market listing valued the Kentucky reserves at \$28.7m and the Texas asset at \$4.5m.

The prospectus does not mention Mr Smith's role in the transaction, although he was a

was taken over by Mr Hubert Perrot, the French investor, and renamed Concorde Energy.

The first piece of litigation to

come to light in recent months

concerned Butte Mining, which

was eventually sold to Globe Petroleum, a UK company in which Mr Smith was an investor. Globe has been suspended at 4½p since March.

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COMMODITIES AND AGRICULTURE

Cocoa prices slip back from 2½-month highs

By Richard Mooney

PROFIT-TAKING halted the London cocoa futures market's bull run yesterday after speculative and trade buying had pushed prices to fresh 2½-month highs.

Early dealings saw a continuation of the almost uninterrupted upturn that had lifted the September position from the 16½-year low of £509 a tonne reached on June 25. But the profit-taking began when the £632-a-tonne level was

reached and by the close the September position was just £2 up on the day at £616 a tonne. There were also unconfirmed reports of modest sales by producers, whose resolute absence from the market over the past few weeks had helped to sustain the upward move.

However, just as they had been reluctant to write off the preceding downturn when prices began rising in late June, dealers were already yesterday to administer the last rites to the recent bull run.

Chart patterns still looked constructive, they said, following the breach during the morning rise of last week's September position high of £622 a tonne.

The coffee market followed a similar pattern, with London's September robusta futures position climbing to a 2-month high of £791 in the morning. But volume was very thin and when selling began the market quickly moved into the red. By the close, September coffee had slipped back to £760 a tonne, down £16 on the day.

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Ukrainian manganese deal agreed

AUSTRALIAN manganese producer Portman Mining says it has reached agreement with the Ukrainian government on a joint venture to expand a large underground manganese mine in southern Ukraine, reports Reuter from Perth.

Portman is to complete a feasibility study on the mine, at Stepnogorsk in the Bolshoy-Tokmak area of the Nikopol manganese basin, before entering a 50:50 venture to develop the project.

Mr Brian Johnson, Portman's executive director, said that total ore reserves of the Bolshoy-Tokmak deposit have been calculated at more than 1bn tonnes, making it one of the world's largest known manganese ore bodies.

Portman is to earn its 55 per cent interest in the venture by providing a plant with a capacity of 1m tonnes of ore a year.

It will also offer management, marketing and working capital to allow production to be expanded to 1m tonnes a year, from 250,000 tonnes at present, and will investigate the possibility of having the ore smelted at a ferro alloy smelter at Nikopol.

The processed ore is used as feedstock by ferro manganese alloy producers, mainly in Europe, Russia and China.

Mr Johnson said he would not disclose Portman's expected investment in the venture until it is formalised later this year. "But it is within the company's ability to finance the project from existing cash flow and it will not require external loans for development."

He added: "The Ukraine project should give Portman Mining competitive access to sections of the European manganese market as well as potential large volume sales to the Russian steel industry at a later date."

Crop breeders hail 'super cassava'

John Madeley on an advance in the fight against famine in Africa

CROP BREEDERS are calling it "super cassava". A breakthrough in the breeding of Africa's most widely grown staple food, cassava, has led to the development of a high-yielding variety which could survive in drought conditions and be the continent's most important hope for overcoming famine.

Cassava - which is known in some countries as manioc - is a root crop that produces a tuber resembling a large potato. It grows in poor soils, does not require chemical fertiliser and needs little rain.

The plant's long roots tap soil moisture deep in the ground; when drought strikes, cassava has a "defensive mechanism" which causes its leaves to drop while the tubers survive. This has led to the claim: "Where there is cassava there is no hunger".

In times of drought, cassava will survive when other crops wither, says Mr Alfred Dixon, a cassava breeder at the International Institute of Tropical Agriculture (IITA) in Ibadan, Nigeria. The institute - which celebrates its 25th anniversary on July 24 - is one of 16 worldwide centres belonging to the Consultative Group on International Agricultural Research. It is trying to increase the productivity of key African food crops, such as cassava, and to develop sustainable systems that replace "slash and burn" techniques.

Processed cassava is eaten daily by some 300m people in Africa, around two-thirds of the continent's population, and also in parts of Latin America and Asia - the largest producers are Nigeria, Brazil and Thailand. Although it grows extensively across west and central Africa, the crop only grows in small pockets in southern Africa, the region now affected by the worst drought for 50 years.



Polypliod cassava varieties (right) yield much more heavily than the normal diploid varieties (left)

About half of Africa's cassava is used for subsistence needs and half for commercial purposes. The crop has the advantage that it can be stored in the ground for over a year, giving farmers the freedom to eat or sell it when the need arises. Cassava's disadvantage is that while high in calorie content, it is low in protein. But its nutritional value can be increased by adding protein-rich crops such as soyabean.

To try to develop high-yielding varieties of cassava, cassava breeders at IITA crossed cultivated species with a wild species of the plants, and say they discovered spontaneous "polypliods" with up to four times the normal number of chromosomes. The more chromosomes there are in a plant, the more chance of higher yields.

When breeders tested the new polypliods at research stations in different areas, they tried as far as possible to grow them in the conditions that exist on farmers' fields. The results exceeded expectations. Whereas the best existing variety of cassava - known as TMS 30572 - yields an average of 23 tonnes a hectare "on station", the new varieties yielded

between 50 to 70 tonnes per hectare. Cassava yields an average of 12 tonnes a hectare on African farms.

The polypliods are now being tested on selected farms. Kornelius Hahn, who leads IITA's cassava programme, is hopeful of yields up to 40 tonnes a hectare on farms, giving farmers two to three times more than their existing harvests. This would mean substantially more food being grown in Africa by Africans and would offer many countries the prospect of reducing food imports.

"The polypliods offer the potential for a very significant breakthrough," believes Mr Lukas Brader, IITA's director general.

For southern African countries the availability of "super cassava" could lead to far-reaching changes in agriculture. Maize, the staple food across most of southern Africa, is highly vulnerable to drought, and researchers have been unable to develop maize varieties that can cope with drought. In southern Africa there is now tremendous interest in increasing cassava production," says Mr Brader.

An Eastern and Southern African Root Crops Network was set up in 1977 to help countries develop root crops. IITA officials say that Zimbabwe is trying to start a large-scale cassava programme and that Zambia is interested in extending its crop. In Uganda, a World Bank project is helping to expand the area under cassava.

Like maize, a small proportion of cassava output is used for animal feed and for industrial purposes such as making beer, cosmetics and starches. "Cassava could be used instead of maize for such purposes," says Mr Dixon, "leaving more maize for food."

IITA officials believe that the new varieties of cassava will make the crop highly attractive to farmers across Africa, both for their own food security and also as a profitable commercial crop. The continent's growing population is leading to increased demand for cassava, which is reflected in substantially higher prices in many areas. In Malawi, it is fetching Naria 1,500 (£43) a tonne compared with N180 a tonne.

An IITA survey of cassava in Africa found that in 275 villages (in six countries that had not experienced famine), cassava was grown as the main crop in half of them. The survey revealed that in villages where cassava was increasingly cultivated, 30 per cent of villagers said they were growing more of the crop as a security against hunger and famine. 20 per cent said it was because of growing population, while 20 per cent cited a good local market.

Crop breeders are cautiously optimistic that the new varieties will give Africa a long-overdue breakthrough to higher food output. "Africa shall survive," believes Mr Hahn, "because of polyploidy in cassava."

India's tea crop likely to decline

By Kunal Bose in Calcutta

INDIA, THE world's biggest tea producer, is likely to harvest a crop of 730m kg in the current year, compared with 741.7m kg in 1991, when production increased by 27m kg.

In its annual review, J. Thomas & Company, the tea auction house, says that while north India could match last year's crop of 556.7m kg, a big production shortfall in the south Indian estates is feared.

According to the review, India is unlikely to find export markets for more than 200m kg of tea, against 203m kg last year, following the disintegration of the Soviet Union, which used to account for more than half its overseas sales.

India has signed tea export protocol with Russia, Kazakhstan and Uzbekistan for a total of 65m kg. But the review says: "It is possible that the Com-

monwealth of Independent States (the former Soviet Union) may import similar quantities as in the previous year from the world market,

with Indian teas comprising a major share, but Indian exports to the CIS are unlikely to be as dominant as in 1991."

J. Thomas believes, moreover, that Russia and the other former Soviet republics will be operating in lower price bands than in earlier years.

The situations in Iraq and Yugoslavia add to India's concerns. The UK, Germany, Poland, Iran, Egypt and Japan are, however, expected to buy more Indian tea this year. As for prices, the review says that good quality CTC (cut, tear and curl) and orthodox teas should be commanding healthy premiums, while poorer orthodox teas as well as plain and medium CTC "may fall into a high risk area due to more subdued

operations by the CIS".

In view of the disposition of quality conscious Indian consumers to pay "premiums for good CTC teas", J. Thomas recommends that the industry should concentrate on the production of quality tea to remain viable. Unlike the other tea producing countries, India has a huge domestic market for tea, of some 530m kg last year.

The sharp widening of the price differential between good and plain categories since last year will encourage gardens in general to improve their agricultural practices.

According to J. Thomas, Indian gardens are likely to concentrate on the production of CTC tea, since no one is sure of the support to be lent to orthodox tea by Russia and the other republics. Indian green tea production will, however, remain at about 8m kg.

Cornish mine has '20 years of reserves'

By Kenneth Gooding, Mining Correspondent

CORNWALL'S SOLE surviving working tin mine, at South Crofty near Camborne, which was almost killed off last year, should be able to continue well into the next century, according to Mr Kevin Ross, managing director of Carnon Holdings, the mine's owner.

"We currently have 20 years of reserves and I am very confident that we can continue mining well into the future," he said yesterday.

South Crofty was now operating profitably following the recent strong rise in the international tin price, which has been at its highest level for 18 months, he said. The mine was not far off full break-even at present prices.

Mr Ross said break-even was at £3,750 to £3,800 a tonne. Last night tin for delivery in three months closed on the London Metal Exchange at \$7,062.50 a tonne.

tonne, equivalent to £3,715. Mr Ross said South Crofty would produce about 2,000 tonnes of tin in concentrates this year - all of it sent for refining to the DMS smelter in Malaysia.

Carnon's Wheal Jane tin mine, near Truro, was killed off by the extraordinary low prices in 1990. In February last year it seemed that South Crofty was also doomed, when the UK government withdrew promised funding without warning and refused to pay the final £1.7m of a £2.47m interest-free loan.

Carnon had to make all its 418 employees redundant and covered the cost of redundancy payments and other outstanding debts by selling equipment from Wheal Jane, surplus land and processing 40,000 tonnes of stockpiled ore, as well as the government loan.

In July last year, Carnon won outline planning permission for a 23m leisure centre on the Wheal Jane site. Mr Ross said this had been shelved until the property market improved, but Carnon was continuing to go through the planning process.

Some 205 volunteers came back to work on new contracts

- everyone, including the managing director, worked for £4.35 an hour or about 60 per cent of the previous average wage at the mine - which so changed the economics that it became worthwhile mining again. As the tin price has risen, miners' pay has been lifted to "near the local average", said Mr Ross.

Carnon was bought by its managers from the RTZ Corporation, the world's biggest mining company, in March 1988. Managers shaved 80 per cent of the equity and the rest was held in trust for employees. The company had a £10m interest-free loan from RTZ as well as the government loan.

This emerged from a survey of more than 1,100 agricultural, horticultural and other rural businesses in Leicestershire, Nottinghamshire and Warwickshire. The survey was carried out for the local training and enterprise councils, the Heart of England Agricultural Train-

ing Board and the Rural Development Commission.

The results not only indicate the speed of change on British farms, stimulated by European Community attempts to bring price support spending under control, but also imply that the moves towards farm diversification have made only limited progress towards stabilising the rural economy.

Analysis of response to questions, relating to business, the rural workforce and training failed to establish the extent to which diversification activities "either increase employment opportunities or fully employ existing labour".

Nearly half of the diversified farms had become engaged in contracting.

The survey showed, as farmers sought greater use from existing investment. Indeed, the report noted, "the most popular diversifications appear to be those trading on existing assets rather than those requiring high capital outlay".

Against the background of steady decline in the farm workforce - a 9 per cent reduction over the last five years in the three counties - farmers are using more outside labour.

The survey showed that over two-thirds of farms used con-

tractors, just under a half used casual labour and that a fifth used self-employed workers.

But Mr Nigel Gaynor, director of the Heart of England Agricultural Training Board, has doubts about how far contracting can be taken as a diversification. "A big question arises: there must be a finite amount of work that can be done by contracting," he said.

More certain is the fact that farmers in Leicestershire, Nottinghamshire and Warwickshire are engaged in a continuing search to reduce fixed costs. This prompted the report both to predict an increase in the use of outside labour and

MARKET REPORT

COPPER prices appeared to be consolidating at the London Metal Exchange yesterday after the three month position was trimmed back from a morning high at the equivalent of \$2,510 a tonne, dealers said, adding that the upturn might be resumed later.

The price ended at \$2,493 a tonne, up \$23 from the pre-weekend level. In other LME markets the trend was modestly downwards, notably in Zinc, where the cash price fell \$10 to \$1,295 a tonne.

Three months NICKEL closed \$80 lower at \$386.85 an ounce. Compiled from Reuters

liquidation triggered stop-loss selling orders. Talk of an imminent 3-month closure of a Chinese nickel smelter for maintenance had little impact. At the London bullion market dealers described GOLD as subdued but steady and no further attempt was made to breach upside resistance at \$350 a troy ounce, although healthy physical off-take from the jewellery trade was reported to be lending extra support. The price closed 25 cents up at \$348.70 an ounce. Patchy buying on continuing South African worries helped PLATINUM to gain \$1.85 to \$386.85 an ounce.

Compiled from Reuters

London Markets

INPUT MARKETS

Crude oil (per barrel FOB)

+ or -

Jul 91 230.00 229.00 227.20

Aug 91 218.00 218.00 218.00

Sept 91 216.00 216.00 215.20

Oct 91 214.00 214.00 212.20

Nov 91 212.00 212.00 210.20

Dec 91 209.00 209.00 207.20

Mar 92 206.00 206.00 204.20

Apr 92 203.00 203.00 201.20

May 92 200.00 200.00 198.20

Jun 92 197.00 197.00 195.20

Jul 92 194.00 194.00 192.20

Aug 92 191.00 191.00 189.20

Sep 92 188.00 188.00 186.20

Oct 92 185.00 185.00 183.20

Nov 92 182.00 182.00 180.20

Dec 92 179.00 179.00 177.20

Jan 93 176.00 176.00 174.20

Feb 93 173.00 173.00

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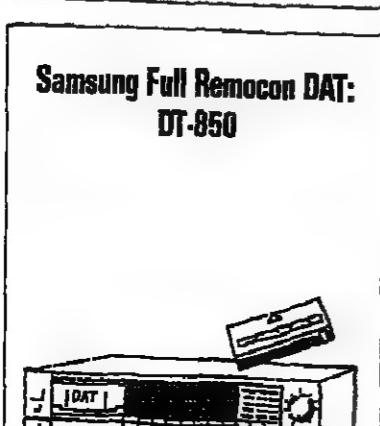
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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4:00 pm prices July 13



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NYSE COMPOSITE PRICES

continued from previous page

NASDAQ NATIONAL MARKET

4:00 pm prices July 13

Stock	Div.	E	100s	High	Low	Last	Chng	Stock	Div.	E	100s	High	Low	Last	Chng	Stock	Div.	E	100s	High	Low	Last	Chng	Stock	Div.	E	100s	High	Low	Last	Chng			
ABERCO	0	44	21	712	384	324	-334	+41	Dagger Cpt	0	15	4	274	262	261	-1	Lam Rock	0	19	1301	131	122	123	+1	Sesape	0	305	12265	154	142	154	+14		
ACI Corp	0	17	73	103	152	142	-142	+2	Dane Yrs	0	0.20	4	112	13	13	-1	Lancaster	0	0.60	19	1253	31	304	31	+1	SEI Cpt	0	15	17	193	234	22	234	+1
Acme E	15	555	65	85	84	84	-84	+1	DAN Corp	0	0.20	33	1001	224	21	-1	Lance mc	0	0.22	19	125	252	244	-2	Seabes B	0	36	2	58	51	51	51	+1	
Acme Cp	38	220	18	17	17	17	-17	+1	Dante Rts	0	0.24	33	1001	224	21	-1	Lansdale	0	13	474	104	104	104	-1	Selectra	1.12	8	26	271	204	21	21	+1	
Adaptech	33	2201	214	202	202	202	-202	+1	Dante Rts	0	0.24	37	141	145	145	-1	Lanslope	0	6	216	512	514	514	-1	Sequid	0	8	288	144	144	144	-1		
ADC Tele	25	284	324	304	312	312	-312	+1	Dante Rts	0	0.20	27	83	67	67	-1	Lattice S	0	18	520	163	153	153	+1	Sequoia	6	216	61	51	51	51	+1		
Adelphi	0	611	122	122	122	122	-122	+1	Dante Rts	0	12	518	91	87	87	-1	Lemon Pr	0	40	20	232	254	25	25	-1	Seabes B	0	36	2	58	51	51	51	+1
Aero Serv	8.15	25	30	152	14	13	-13	+1	Dante Rts	0	18	17	17	17	17	-1	LDI Cpt	0	6	128	11	11	11	-1	Seafair	0	12	66	84	74	74	-1		
Aeros E	0.02	15	5400	454	453	452	-452	+1	Dante Rts	0	0.24	19	734	16	16	-1	Lechters	0	25	83	202	194	20	20	-1	Seafract	0	8	210	104	104	104	-1	
Aer Logic	8	208	54	54	54	54	-54	+1	Dante Rts	0	0.08	8	1076	44	44	-1	Liquid Co	0	19	1200	344	334	344	+1	Seawise	0	13	8	12	104	104	-1		
Aer Rego	21	616	104	104	104	104	-104	+1	Dante Rts	0	0.09	16	780	234	234	-1	Liqui Tech	0	0.20	28	4	214	21	-1	Sheldred	0.84	16	221	193	193	193	-1		
Aer Tele	21	2127	204	204	204	204	-204	+1	Dante Rts	0	0.24	85	3	41	41	-1	LiquiTech	0	14	31	34	34	34	-1	Shelton	0	17	742	214	21	21	+1		
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Affymet	25	3686	194	186	194	194	-194	+1	-	-	-	-	-	-	-	Lumina	0	100	4	65	212	204	21	+1	Sigmar	7	1477	0	74	74	74	-1		
Agency Ex	13	15	87	82	82	82	-82	+1	-	-	-	-	-	-	-	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1		
AlcoAero	0.07	1	880	654	5	54	-54	+1	-	-	-	-	-	-	-	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1		
Alco All	1.52	11	154	152	152	152	-152	+1	Apple Fd	0	22	74	74	74	74	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Alco Cp	18	5255	15	13	142	142	-142	+1	Apple Fd	0	21	2	12	15	15	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Alco Sales	0.00	11	24	24	24	24	-24	+1	Apple Fd	0	0	68	15	15	15	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Alleg AT	20	147	612	54	54	54	-54	+1	Apple Fd	0	18	372	18	17	17	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Alles Org	0.48	12	2100	21	21	21	-21	+1	Apple Fd	0	2	106	32	31	31	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Allen Ph	18	1408	214	20	20	20	-20	+1	Apple Fd	0	3	20	3	20	20	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
AlloCap	1.00	17	52	20	18	18	-18	+1	Apple Fd	0	2.20	43	17	42	42	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
AMC Corp	0.00	13	184	154	154	154	-154	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
AMC Disc	0.00	13	184	154	154	154	-154	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
AMC Gold	2	49	22	22	22	22	-22	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Altra Co	12	1810	12	12	12	12	-12	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Am Doctor	0.00	27	18	18	18	18	-18	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Am City Gs	36	1554	184	174	174	174	-174	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Am Mining	11	553	154	144	144	144	-144	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Am Net B	24	14	14	14	14	14	-14	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Am Sales	0.28	15	173	123	123	123	-123	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Ampli Int	14	755	144	144	144	144	-144	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Amplifex	0.56	8	2300	14	14	14	-14	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Amplifys	0.56	8	2300	14	14	14	-14	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Amplifys	0.56	8	2300	14	14	14	-14	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Amplifys	0.56	8	2300	14	14	14	-14	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Amplifys	0.56	8	2300	14	14	14	-14	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Amplifys	0.56	8	2300	14	14	14	-14	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Amplifys	0.56	8	2300	14	14	14	-14	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Amplifys	0.56	8	2300	14	14	14	-14	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Amplifys	0.56	8	2300	14	14	14	-14	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Amplifys	0.56	8	2300	14	14	14	-14	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Amplifys	0.56	8	2300	14	14	14	-14	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Amplifys	0.56	8	2300	14	14	14	-14	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Amplifys	0.56	8	2300	14	14	14	-14	+1	Apple Fd	0	0.03	43	265	23	22	-1	Luminal	0	88	13	304	244	235	235	-1	Sigmar	7	1477	0	74	74	74	-1	
Amplifys	0.56																																	

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AMERICA

Dow stages recovery from early losses

Wall Street

AMID conflicting pressures, US share prices posted modest gains in light trading yesterday as markets staged a recovery from early losses linked to weakness in bond prices and the dollar, writes *Patrick Harrison* in New York.

At the close the Dow Jones Industrial Average was up 6.75 at 3,373.31, while the Standard & Poor's 500 was slightly firmer on balance at 314.86, up 0.24. The Nasdaq composite put in the day's best performance, rising 3.23 to 571.03.

Turnover on the New York SE was a meagre 149m shares, while rises outpaced declines by 500.

Overnight losses on foreign markets combined with continued weakness in the dollar, linked to speculation that the Bundesbank may raise German interest rates, and these two with declining bond prices as the 30-year benchmark bond fell ½ point, pushing the yield back up to 7.57 per cent. All of this undermined some positive quarterly earnings reports helped prices recover by mid-morning.

Bank stocks were a feature amid a string of well-received figures, although most of the early gains were erased later in the session by profit-taking. J.P. Morgan, after advancing more than \$1 on news of a sharp rise in second-quarter profits from \$231m a year ago to \$385m, settled back to end unchanged at \$61.

Chase Manhattan had an early rise but fell later to finish down 1½ at \$37½ in active trading, after the bank reported a net profit of \$162m in the quarter, up from \$132m at the same stage of 1991.

First Chicago moved in a similar pattern, gaining ground before closing a net ¾ off at \$36½, having reported second-quarter profits of \$88.2m, up 17 per cent from a year earlier.

Also in financials, Federal

National Mortgage Association (Fannie Mae) rose early on, but ended down \$4 at \$63½ in turnover of more than ½ share, after news of record three-month profits of \$402m, compared to \$382m in the previous quarter.

Alcoa firms 5½ to \$73½ after the company reported a second-quarter loss of \$30.6m related, among other things, to employment reductions.

IBM put on ¾ to \$97½ on news that the computer group had entered an alliance with Siemens, of Germany, and Toshiba, of Japan, for the joint development of advanced semiconductor products.

On the Nasdaq market, Spartan Motors plummeted \$6 to \$13½ in heavy trading after the company warned that second-quarter earnings would come in between 28 and 34 cents a share, well below market expectations.

Century Medicorp jumped ¾ to \$19 after stating that it was negotiating the terms of a stock swap acquisition by another, as yet unnamed, but larger, healthcare company.

Canada

TORONTO stocks closed steady after a day of light trading activity. The TSX 300 index edged up 1.7 to 3,449.2 and advancing issues led declines by just 272 to 244. Volume came to 18.8m shares.

The real estate group posted the day's biggest decline, 1.9 per cent. One of the subgroup's most heavily weighted stocks, Cambridge Shopping Centres, fell 2½ to C\$15.4.

SOUTH AFRICA

JOHANNESBURG remained nervous after the ANC said that it would start a campaign of mass action next month. The overall index closed 35 lower at 3,448 and industrial shed 34 to 4,280. The gold index lost 18 to 1,054.

In the oil sector, Federal

EUROPE

Frankfurt tax fears join dollar and interest rates

APPREHENSION ahead of the Bundesbank meeting on Thursday combined with a weaker dollar to depress bourses yesterday. Paris was closed for the Bastille holiday and will re-open on Wednesday, writes *Our Markets Staff*.

FRANKFURT added higher taxes to its fears, singling out carmakers after weekend newspaper stories saying that driving in Germany would become 30 per cent more expensive.

BMW dropped DM7.10 to DM57.1, Daimler by DM11.50 to DM74.6 and Volkswagen by DM8.20 to DM37.70 as the FAZ index shed 6.78 to 687.08 at mid-session and the DAX by 17.98 to 1,736.50 at the close.

However, turnover fell from DM4bn to DM3.9bn and dealers said that both investment thinking and trading was extremely short term.

Deutsche Bank made Daimler a trading sell yesterday. There was also a report that slowing growth, more international competition and technological advances could cause the German car industry to lose up to 200,000 jobs from its current total of 780,000.

In a generally easier telecom sector, Siem. fell DM2 to DM1.75 on

After hours, the transport minister, Mr Günther Krause, denied a report that he wanted petrol taxes raised, although he defended his call for the introduction of motorway user fees.

Siemens fell DM7.10 to DM54.40 on talk that Deutsche Bank was a seller. In retailing, Massa followed its former major shareholder, Asko, into troubled waters, reporting big extraordinary costs and halving the dividend; its shares fell DM9 to DM5.

MILAN drifted lower after a quiet start but was enlivened towards the end of the session when a domestic broker actively bought shares in Montedison and Generali. The Comit index fell 1.2 to 441.05 in turnover estimated at less than Friday's DM1.75bn. Dealers said that 50-60 per cent of options were abandoned when they expired yesterday.

Generali closed DM1.25 down at DM1.45 before rebounding to DM1.80 while Montedison closed 17 lower at DM1.40 but reached DM1.43 after hours.

In a generally easier telecom sector, Siem. fell DM2 to DM1.75 on

uncertainty about the effects of the government's plans to freeze tariffs. But Italcar, which manages telephone traffic between Italy and non-European countries, bucked the trend, adding DM1 to DM1.50.

At a presentation in London yesterday, the company said that outgoing calls rose 42 per cent in the last four months, which it attributed to the big improvement in the network as a result of heavy investment by Siem. and Italcar. Regarding the current reform of the sector, the company forecast that its turnover would double if it were granted the European traffic previously managed by ASTT. It estimated the cost of the transfer at roughly 1.6 per cent of its revenues for the first three years, plus payment

for the proportion of the assets it would inherit from ASTT.

which it would depreciate over the next seven years. The big question mark, however, was what proportion of ASTT's 18,000 employees Italcar would have to take on.

ZURICH fell on interest rate fears, the SMI index closing 15.0 lower at 1,841.5. Adia, the temporary employment agency, plunged again, the shares falling SF17.4, or 9 per cent to SF15.75, on a depressing interim report for 1991.

AMSTERDAM weakened on

the dollar and interest rate uncertainty, the CBS Tendency index closing 14 lower at 203.7.

The weakness in OMV

affected other stocks, with Crediditano preferred shares

declining DM2 to DM1.60.

DM2 to DM1.60.

STOCKHOLM fell back,

reversing a two-day recovery

which had brought the market

its shares which closed at DM28.30. Elsevier went against the trend, rising 60 cents to DM107.20.

BRUSSELS fell back with SGB losing BFT5 to BFT2,025 in volume of only 13,900 shares. The Bel20 Index ended 5.51 lower at 1,165.20 in turnover of BFT507m.

Solvay was one of the few stocks to rise on the day, advancing BFT250 to BFT12,500 in volume of just 4,570 shares.

MADRID gained ground with the general index advancing 0.5 to 235.75, Popular rose Pta60 to Pta10.80 after reporting a 15 per cent increase in first half consolidated net profit.

VIENNA continued to decline with OMV, the oil group, losing another Sch62 or 8.4 per cent to Sch67.5. The ATX index closed down 24 at 865.07, a fall of 2.7 per cent.

The weakness in OMV affected other stocks, with Crediditano preferred shares

declining Sch21 to Sch18.50 and Bundeslander preferred shares Sch20 to Sch18.50.

ISTANBUL fell slightly in low volume. The 75-share index

closed down 27.95 to 4,356.39, off its lowest level for the year which it reached last Wednesday. The Aktiærsværdet General index fell 9.2 to 888.1, in thin turnover of SKr280m after SKr38m.

Astra, the session's most active issue with turnover of SKr38m, saw its A shares fall SKr14 to SKr14.6, while its B shares lost SKr1 to SKr1.27.

GOPENHAGEN was shored up by shipping shares, selected banks and industrials as the CSE index rose 0.3 to 318.47.

In shipping, AP Moeller's DS 1912 rose DKR1,000 to DKR2,500, while D/S Svendborg climbed DKR700 to DKR13,000. Among banks, DSB rose DKR2 to DKR1,750.

OSLO's all-share index lost 5.84 or 1.5 per cent to 391.05 in turnover of NKr128m. UNI Shareb A lost NKr1 to NKr28 on unconfirmed reports that the insurer was to seek new capital through a planned share issue of NKr1.5m. Norsk Hydro fell NKr3 to NKr15.25.

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ASIA PACIFIC

Rally in futures market helps Nikkei advance 2.5%

Tokyo

A RALLY in the futures market prompted small-lot index buying in cash stocks, and the Nikkei average advanced 2.5 per cent, moving above the 17,000 level for the first time since June 12, writes *Smriti Terazono* in Tokyo.

The Nikkei gained 41.01 to close at the day's best of 17,201.73, after a low of 16,742.27 registered in the morning session. Volume, however, plunged to 180m shares from Friday's 310m. Risers outnumbered decliners by 822 to 265, with 191 issues unchanged, while the Topix index improved 15.37 to 1,398.95. In London trading the ISE/Nikkei 50 index eased 0.50 to 1,028.06.

In spite of the rise, traders were discouraged by the inactivity of investors. Mr Brian

Tobin at S.G. Warburg Securities said: "It is like looking into a cloudy crystal ball — you cannot read too much into price movements." He added that investors will not become buyers until "fundamentally good reasons appear".

In contrast to the lethargic cash market, active buying supported futures. "There was constant large-lot buying which seemed to be short-covering," said Mr Masa Sato, derivatives trader at Dai-Ichi Securities.

Due to the lack of news, dealers continued to target short-term time stocks. Taiyo Fishery, a leading fishery company planning to breed blue-fin tuna, Yatai Y12 to Y145 and Meiji Milk Products, currently developing an anti-Aids drug, climbed Y17 to Y187.

Low-priced high-technology and car issues, viewed as potential takeover targets, were in demand. Fuji Heavy Industries, the car concern currently restructuring itself, was

buying too much into price movements," he added that investors will not become buyers until "fundamentally good reasons appear".

The acquisition of a 54 per cent stake in Spain's largest cement manufacturer by Cemex, the Mexican cement company, was poorly received by foreign investors and the group saw its shares drop 16 per cent. Latin American Securities comments that the negative reaction was partly due to the fact that Cemex intended to use cash from its recent equity issue to make new acquisitions rather than reduce its debt load.

Austria was Europe's weakest bourse after Thursday's sudden resignation of OMV's chairman, Mr Siegfried Meyer, and the announcement that the oil group expected to report first-half losses of some Sch500m (S47m). This news propelled the market to a low for the year.

Only Norway managed to resist the downward trend,

works has been placed on the company.

In Osaka, the OSE average moved up 228.15 to 19,559.17 in volume of 4.5m shares. Nintendo, the video game maker, rose Y100 to Y11,300 as a stabilisation in currency movements made some leading blue chip exporters attractive.

Roundup

TOKYO'S recovery was not reflected elsewhere in the region.

HONG KONG saw heavy buying in HSBC as the bank replaced Midland Bank, its long-sought acquisition in a 1992 high of HK\$2,100 after an intraday low of HK\$1,700. Vol.ume was a heavy 4.7m shares.

AUSTRIA lost ground on poor retail trade figures. The All Ordinaries index slipped 5.5 to 1,638.5, while most retailers were hit, but QW, embroiled in a hostile takeover battle with Davids Holdings, was a notable exception, rising 16 cents to HK\$1,385 as two strong buyers bid up the market.

The sale also boosted Cathay

SINGAPORE

was pulled

down by selective blue chip selling, particularly of Overseas Union Bank. The Straits Times Industrial index shed 4.17 to 1,822.85 in volume of 9.5m shares.

KUALA LUMPUR rose further in active trade. Volume

rose to 89.2m shares from 55m as a stabilisation in currency movements made some leading blue chip exporters attractive.

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VIEWPOINT

The Commerzbank report on German business and finance

Intra-industry trade drives growth in Europe

Since 1985, when the Single Market project was launched, the twelve EC

countries' trade has expanded in volume terms by about 40%, roughly in line with world trade. During this period, however, the Community's internal trade was much more buoyant. Most of the growth in intra-EC trade was fuelled by trade in manufactures, which accounts for almost 80% of total exports and imports and is growing much faster than trade in raw materials and agricultural produce, which contributes less than 12%.

On the face of it, the EC's success would seem to suggest that the creation of such regional blocs boost trade. Not surprisingly, therefore, the establishment of similar zones is being discussed elsewhere, the most notable recent example being the planned North American Free Trade Agreement. However, the long-term benefits seem less clear-cut, as the formation of such blocs only shifts trade barriers without actually removing them. In particular, the protection given by industrial countries to their farm sectors leads to huge welfare losses.

Focus on manufactures

Over the past twenty years, trade in similar products between countries with a similar factor endowment has grown at a much higher rate than traditional trade in complementary goods. In most mature economies, this "intra-industry trade" in manufactures now accounts for well above 50%. Thus the overall outlook for world trade will be determined primarily by the development of intra-industry trade.

Manufactured goods, above all machinery and vehicles, account for the

"Economic gains limited unless protectionist sentiment is successfully restrained."

lion's share of the EC countries' trade, especially within the Community. Here, export and import growth rates have been well above-average for the past ten years.

There are many reasons for this. Demand for goods tends to be more diverse in countries with a high per capita income. In a large, highly integrated market, companies are able to concentrate the large-scale production of a wide range of goods at the most competitive sites within that market. This has not only stimulated trade; it has also attracted substantial inflows of foreign direct investment. As a result, a sizeable amount of Europe's intra-industry trade is, in fact, intra-company trade.

With the completion of the common market and the integration of the EC and the EFTA states into the European Economic Area at the start of 1993, the prospects for trade within Europe look good. Yet no matter how great the benefits of a common market, the EC should resist the temptation to view that market as a members-only club

WORLD AUTOMOTIVE COMPONENTS

SECTION III

Tuesday July 14 1992

As car and truck makers seek ways to shore up their sagging profitability, the components industry is experiencing painful shock waves. Kevin Done assesses prospects for manufacturers facing up to an era of restructuring

Going gets even tougher

THE competitive screw is being tightened remorselessly on the world's automotive components suppliers, as car and truck makers seek urgently for ways to shore up their sagging profitability.

With bought-in components usually accounting for at least 50 per cent of the costs of a car - Ford purchases alone totalled nearly \$43bn in 1990 - it is little coincidence that the vehicle assemblers look first to squeeze their suppliers, when the going gets tough.

The resulting shock waves that pass through the automotive components industry are being felt most painfully by the army of suppliers to General Motors, the world's largest vehicle maker, who are still trying to come to terms with the latest convulsions in Detroit, as GM seeks to staunch its record losses. GM is looking to global components sourcing as one of its main routes to short-term financial recovery.

Outspokenly for suppliers Mr Robert Stempel, hard-pressed chairman, warned recently that the group would "use the global purchasing power of GM to reduce material costs and accelerate the return of our North American operations to profitability. We need to average the worldwide volume of GM to buy our material and components at best prices."

GM, the wounded elephant of

GM's North American and European strategy boards.

He has already stunned the US component industry by indicating, at a meeting last month with top executives of 600 suppliers and 300 GM purchasing managers, that existing GM contracts are open to new bids. It is thought that GM could be seeking more than the 7 per cent price cuts over three years it had already begun to demand last year. The carrot Mr Lopez is dangling is the opportunity to sell products to GM worldwide under long-term contracts.

According to Mr Stempel long-term contracts, some for the life of a new model, would provide suppliers with the necessary volume to support their capital investments to reduce costs and improve quality. "We're going to concentrate on suppliers who meet our cost and quality standards."

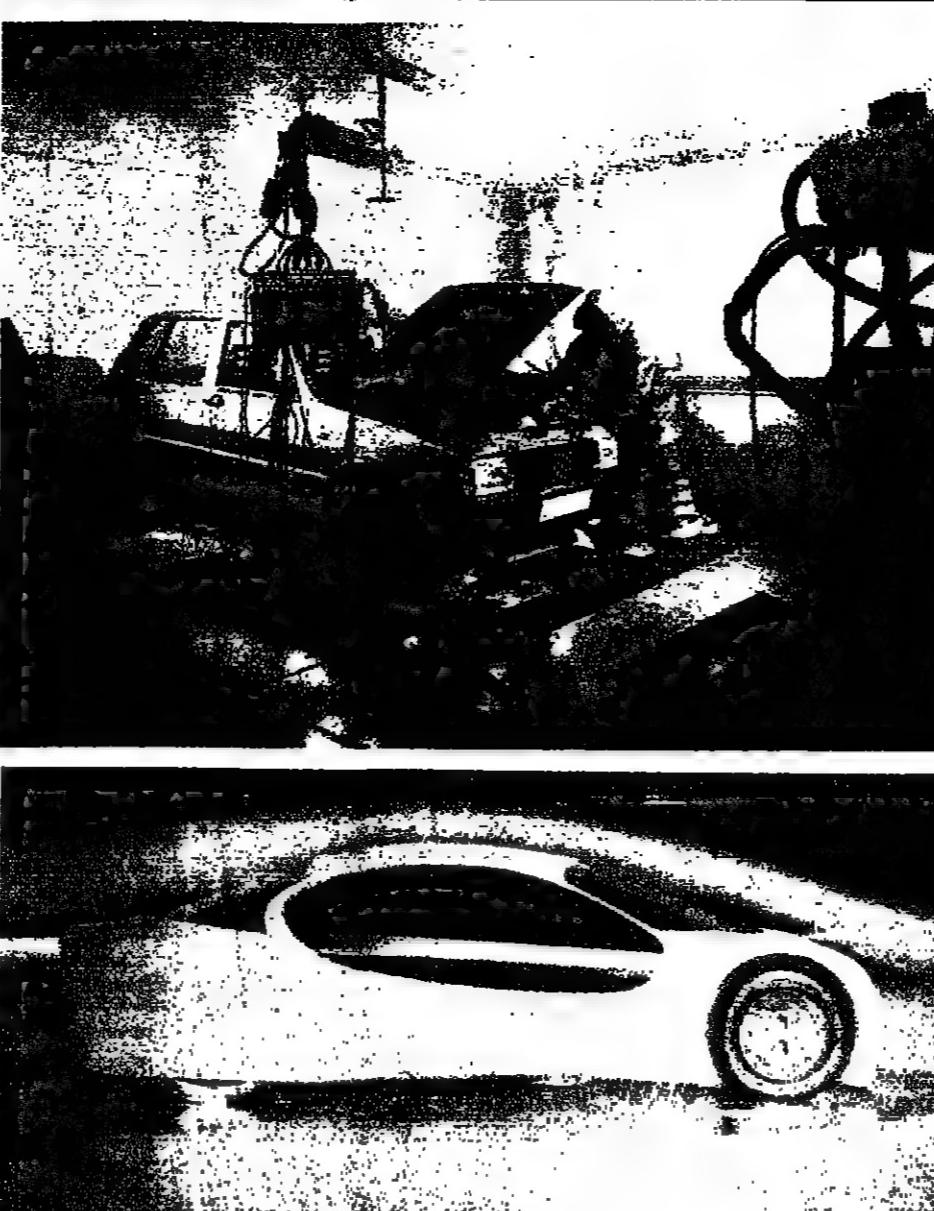
The pressures on GM are being felt by all vehicle makers, and the crucial relationship between the vehicle producers and their suppliers is being fundamentally transformed.

The leading vehicle makers are creating global operations, forcing the component producers to match this international expansion if they wish to maintain their central supplier roles. At the same time they are off-setting research and development spending by globally sourcing their component requirements, increasingly in the form of built-up systems.

The vehicle makers are using larger purchasing volumes - sometimes in alliances as in the case of Renault of France and Volvo of Sweden - in order to push down supply costs.

Renault and Volvo announced late last month far-reaching steps to achieve a genuine joint purchasing strategy "to control costs by reducing purchasing prices" with the aim of bringing the proportion of the two groups' total purchases from joint outside suppliers to 80 per cent from only 10 per cent today.

The vehicle makers are also drastically cutting the number of their suppliers to simplify their purchasing relationships



Shape of things to come in all kinds of weather: a wind tunnel determines the lines of least resistance in tomorrow's car while an engineer tries a cold start in sub-zero temperatures (top)

and to delegate more responsibilities to their main so-called first tier suppliers.

Ford has reduced its worldwide supplier base by more than half from 1980 levels and intends to reduce it by an additional third by 1995. Ford of Europe has cut the number of its suppliers by 15 per cent to 900 since 1988 and plans to shrink the total to 600 by 1995.

In response, the component

manufacturers are being forced into an era of drastic restructuring. The market leaders are seeking to establish a presence in all the principal vehicle-producing regions of the world with global representation in terms of production plants.

According to Mr Noel Goutard, chairman and chief executive of Valeo, the leading French auto components maker, "We must migrate with

our European clients eastwards to countries such as Russia and China, and we must accompany the Japanese in their incursion into the west, Europe and the US, as well as build up our presence in Japan."

The component makers are having to concentrate their R & D resources to establish a competitive edge in principal technologies, while also gain-

ing the necessary scale of production volumes to be able to compete on price and to ensure financial survival.

It is a high risk business. "Our fate as components and systems suppliers depends on the capacity to survive of each of our customers. In the merciless war being waged in the automotive industry, there are winners and losers," says Mr Goutard. "When the losers fall, their suppliers frequently stand to suffer heavy losses and the big investments made to serve the customer are reduced to ashes."

Leading component suppliers are taking on a considerably enhanced role as the vehicle makers seek to delegate more component and systems research and development work to the supply industry.

According to Mr Goutard, suppliers are "no longer just producers of parts for vehicle manufacturers. We have become providers of services including the development of products and systems with a high advanced research content. We supply manufacturers with logistics and we finance their inventory." He maintains that the financial pressures on the supplier sector have greatly increased. "Our customers make us finance inventory, developments, heavy R & D resources, tooling."

Longer-term partnerships are emerging linking the vehicle producers with favoured suppliers. Replacing the old adversarial relationships is not always proving easy, however, and a wide credibility gap often yawns between industry rhetoric and practice. "Purchasing policies still vary enormously from one manufacturer to another," says Mr Goutard.

The era of global expansion by the Japanese vehicle makers has set fresh challenges raising the vehicle manufacturers' requirements in terms of price, quality and delivery.

The spread of Japanese vehicle production plants to North America and now to Europe has also heralded an unprecedented level of direct involvement by the vehicle producers in their suppliers' operations and businesses. The vehicle makers take it for

granted that they will share directly and immediately in efficiency and productivity gains made by their suppliers. Increasingly they are sending in their own advisory teams to work directly in suppliers' plants.

The expansion of the Japanese presence is also creating a new wave of trade conflicts, most importantly between the US and Japan. This year Washington and Detroit have joined forces to an unprecedented degree - highlighted by the acrimonious visit by President Bush to Tokyo earlier this year accompanied by a business delegation including all the chairmen of the big three US vehicle makers, General Motors, Ford and Chrysler.

The US initiative has brought fresh promises from the Japanese motor industry to buy more US components both for use in Japan and in the Japanese car plants in North America, but the recent concessions will scarcely dent the chronic US automotive trade deficit with Japan.

Within North America, the

Continued on page 2

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Editorial production: Roy Terry

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WORLD AUTOMOTIVE COMPONENTS 2

WORLD CAR sales are forecast to grow by 1.3 per cent to 34.6m this year, following a 2 per cent drop in 1991. The decline last year was the largest reduction in sales volume since the 1980-81 recession.

According to DRI Europe, the UK-based automotive analyst, car sales are now recovering in North America, the UK and Spain, and remain strong in Italy and Latin America.

DRI is optimistic about the outlook for car sales worldwide for 1993 and beyond, and expects demand to jump by 18.3 per cent in the five years to 1998, from 34.2m to 40.5m.

Sales in west Europe are forecast to rise to a record 15m in 1992, while car sales in the US are expected to rise by 4 per cent this year to 8.7m, and to recover to more than 10m by the mid-1990s. The US market fell last year to its lowest level since 1982 at 8.4m.

DRI suggests that the fastest growing segment in the US from 1991 to 1996 will be luxury cars, helped by important demographic changes.

The growth in the number of affluent households in the US was an important factor in persuading Toyota and Nissan, the Japanese car makers, to develop luxury car ranges in the second half of the 1980s, aimed primarily at the US.

These cars were launched

World production expected to reach 40.7m vehicles by 1996

Sales acceleration expected

under the Lexus and Infiniti names in the US in 1989. Now, another Japanese car maker, Mazda, is also planning to enter the US luxury car market from 1994 to reach 3.8m in 1996.

Mazda had been studying an entry into the US luxury car market for a couple of years, and has concluded that the prospects are too attractive to be ignored. It estimates that the number of affluent households in the US with an income of at least \$75,000 (\$45,000) a year is set to increase from 2m in 1988 to 2.5m in 1995.

In Europe, the German car market is forecast to fall sharply this year by around 11 per cent, to 3.7m from the record 4.2m achieved last year in the wake of reunification. Sales are also forecast to fall further in Japan this year.

The decline in the German market will eliminate the volume gains achieved elsewhere in Europe, leading to a 1 per cent fall in overall western European new car sales in 1992 to 13.4m, according to DRI. The downturn in Germany,

After growing by 38 per cent

between 1988 and 1990, Japan's new car sales fell by 5 per cent last year to 4.9m. The DRI report forecasts that demand will weaken further this year by 4 per cent to 4.7m, but will recover in 1993 to reach more than 5m again in 1995.

Despite progress made by car importers to Japan in recent years, import penetration remains low at only 4.5 per cent of Japanese new car sales in 1991; and, as new car demand falls in Japan, import sales have been declining at a faster rate than sales of domestically-built cars.

According to DRI, Japanese car sales weakened last year as a result of two main factors: consumer confidence has been damaged by a deterioration in growth prospects for the economy, while, at the same time, there is widespread concern about the future of land and property prices following recent falls. The tightening of parking restrictions has had a significant impact on mini-car tax rates.

In the Asia-Pacific region, both the South Korean and

Taiwan markets have remained strong. South Korean car sales have increased threefold since 1987, to reach 745,000 in 1991. DRI suggests that the economy will remain strong with car sales, rising by a further 50 per cent in the next five years to 1.15m in 1996.

New car sales in Taiwan were little changed in 1991, at 354,000, but demand is forecast to strengthen in the next five years with sales set to reach a record 500,000 in 1996.

According to the DRI study, new car sales in the European Community will grow from 12.6m in 1991 to 13.9m in 1996, with Japanese car manufacturers capturing around 30 per cent of the growth.

The Japanese share of EC car sales is forecast to rise from 10.9 per cent in 1991 to 12.5 per cent in 1996. Japanese penetration is expected to grow in most EC markets, but above all in the UK, where the Japanese share is forecast to rise from 11.6 per cent in 1991 to 16.5 per cent in 1996.

The capacity of Japanese car plants in Europe will probably

exceed 700,000 units a year in 1996.

In the UK, the new Nissan Micra, Toyota Corolla and Honda Synchro all start production this year. DRI forecasts that Japanese car production in the UK will rise to more than 800,000 in 1996, pushing UK car output to 2m, which would be 60 per cent, or nearly 800,000 units, above the 1991 level.

DRI says that, after a weak recovery this year to some 1.7m from 1.5m in 1991, new car sales in the UK will grow more strongly in 1993, by 12 per cent to 1.9m. The market is forecast to be above 2m again in 1994, but will not have recovered its 1988 peak of 2.3m until 1999.

Overall, in the next five years, world car production is forecast to increase by 6.5m vehicles to 40.7m in 1996. Some 2m of this increase will be accounted for by western Europe – including, significantly, local Japanese production – with 1.7m in North America, and only 500,000 in South Korea.

WORLD CAR SALES FORECAST (000s)

	1991	1992	1993	1994	1995
WORLD TOTAL	34,202	34,448	34,746	34,143	33,643
Germany	4,158	3,607	3,592	3,586	3,586
Italy	2,340	2,324	2,286	2,287	2,245
France	2,051	2,167	2,283	2,305	2,168
UK	1,592	1,697	1,854	2,008	2,133
Spain	887	967	1,095	1,197	1,266
EC total	12,580	12,440	12,582	13,034	13,512
West Europe total	13,528	13,391	13,584	14,100	14,629
Eastern Bloc	1,630	1,713	1,987	2,053	2,223
US	3,273	3,895	3,805	10,032	10,173
Canada	871	916	987	1,040	1,100
Brazil	561	599	608	679	747
Mexico	392	451	439	447	482
Japan	4,858	4,674	4,814	4,970	5,106
South Korea	745	838	919	983	1,067

WORLD CAR PRODUCTION FORECAST (000s)

	1991	1992	1993	1994	1995
WORLD TOTAL	34,268	34,968	37,053	38,339	39,888
Germany	4,659	4,682	4,541	4,574	4,512
France	3,197	3,118	3,404	3,476	3,523
Spain	1,773	1,730	1,806	1,858	1,954
UK	1,654	1,627	1,588	1,695	1,755
EC total	12,828	12,988	13,464	13,867	14,297
West Europe total	13,163	13,178	12,915	14,286	14,725
Eastern Bloc	1,895	1,659	2,028	2,236	2,531
US	5,753	6,228	6,702	6,798	7,000
Canada	1,055	1,071	1,122	1,144	1,154
Brazil	705	703	754	848	841
Mexico	373	708	757	783	841
Japan	8,758	8,518	8,882	10,005	10,216
South Korea	1,123	1,208	1,429	1,581	1,635

* DRI World Automotive Forecast Report, DRI, Wimbledon House, 1 Hartfield Road, London, SW19 8RU. Price £2,500.

Source: DRI World Automotive Forecast Report

GERMANY'S car producers are going through a highly unsettling time at the moment, but the components manufacturers can already tell them what the future has in store.

As German labour costs – well above those in any other European country, except Sweden – continue to rise, the automotive industry is under increasing pressure from competitors in cheaper countries such as France and the UK which have made great strides in productivity in recent years.

At the same time, these and other countries such as Italy have experienced sharp cuts in their labour forces as the drive for greater efficiency gathers speed. Among the newer car-producing countries, Spain has also developed rapidly, partly

with the help of Volkswagen.

In spite of the undoubtedly quality, styling, and environmental appeal of German cars, rising costs and increasing competition have put manufacturers and components producers in a tight corner. An added threat is the highly efficient Japanese production in the UK, with Nissan's plant in Sunderland setting new efficiency standards for the industry.

Thus, states Mr Achim Diekmann, managing director of the German motor industry association (VDA): "Germany's automobile sites could be particularly vulnerable as competition intensifies further." Productivity has not been rising fast enough, even though vehicle makers have been highly innovative in other ways. "The German automobile industry's production costs

are too high, not just in comparison with Japan, but also with its European rivals".

The components manufacturers have already had to react to these alarm signals. To keep their own costs low, car and truck makers have put pressure on parts manufacturers to supply at ever lower prices. This makes it harder for German suppliers to earn enough profit in high-cost Germany and has forced many of them to shift some output abroad. It has also led to an increasing trend of concentration in the German parts industry, as companies seek wider groupings to enable them to produce more efficiently and on a larger and thus cheaper scale.

The needs of the car makers, which increasingly want whole systems developed and delivered rather than single parts, are also met by this trend.

The German automotive components industry has an annual turnover of around DM50bn (\$32bn) and is the third biggest in the world after those of Japan and the US. It is also the second biggest exporter. Thus its performance is vital to the success of German car producers.

So, too, therefore, is its cost structure and its capacity not only to make technological advances but also to finance these. For as the sector comes under a growing cost squeeze and vehicle makers' demands become tougher, the shake-out is bound to become rougher in a study of the German parts industry, SAC Enterprises of the UK states: "A period of rapid change should bring with it more rapid restructuring and bigger winners and losers."

They believed Nissan and other Japanese car makers who might follow it would bring in on their coat-tails their own components suppliers from Japan, provoking a bitter fight for survival in the European components industry as well as among its car makers.

This would take place as the industry underwent a speedier selection process – "selection in the sense of survival of the fittest".

One big German engineering company which is determined to increase its presence in the sector is Mannes-

Continued on page 3

European automotive components industry 1990					
Companies with annual European sales of more than \$2bn					
Rank	Company	Sales (\$m)	Principal country of manufacture	Parent	Country of parent
1	Bosch	10,757	Germany	Robert Bosch	Germany
2	Michelin	10,311	France	Michelin	France
3	Philips	4,783	Netherlands	NV Philips	Netherlands
4	Continental	4,649	Germany	Continental	Germany
5	Valeo	3,935	France	Valeo	France
6	Magneti Marelli	3,370	Italy	Fiat	Italy
7	ZF	3,112	Germany	Zahnradfabrik Friedrichshafen	Germany
8	BASF	3,085	Germany	BASF	Germany
9	GKN	2,760	UK	GKN	UK
10	Pirelli	2,620	Italy	Pirelli	Italy
11	Lucas	2,446	UK	Lucas Industries	UK
12	ACG-GM	2,400	France	General Motors Corp	US
13	Goodyear	2,193	Belgium	Goodyear Tire Co	US

Sources: The Economist Intelligence Unit

Companies with annual European sales of \$1bn-\$2.25bn					
14	Teves	1,807	Germany	ITT Inc	US
15	STI	1,644	UK	ITT Inc	US
16	Allied-Signal	1,770	France	Allied-Signal Inc	US

WORLD AUTOMOTIVE COMPONENTS 3

Partnership the watchword

THE 13th Automotor International motor components, spares and accessories fair opened at Turin's Lingotto site at the beginning of June with a significant increase in the number of exhibitors.

More than 600 companies were looking to boost their business by being in Turin, compared to 544 last year. Among the exhibitors were 90 from abroad, who considered the commercial benefits of the week-long fair would outweigh the costs.

The growing popularity of the fair is evidence of the increasing pressures on the industry. The problems were underlined by Aldo Malandra, of Associazione Nazionale fra Industrie Automobilistiche (ANFIA), the Italian automobile industries association: "These are difficult times for the whole automobile industry. The components industry is having to tackle the simultaneous challenges of a contracting market for new cars and weak demand in the spares after-market."

Original equipment makers in Italy have been unable to avoid being affected by the drop of 10 percentage points in the share held by Turin automobile group Fiat in its home market, from around 55 per cent to about 45 per cent over the past two years. "Companies dependent on Fiat have been badly hit," says Roberto Olivero, sales manager of Automotive Products Lockheed, brake plant at Cairo Montenotte, south of the Piedmont capital.

Fiat suppliers had to reduce their production levels in 1991, and the situation will probably worsen this year. "Much was expected from the Tipo, but its sales have disappointed. Fiat's prospects will not get brighter until its ageing model line gets new models."

Moreover, Fiat is reducing the number of companies from which it purchases components. "Partnership is becoming the watchword in the changing relationship between automobile maker and supplier," says Mr Olivero.

Partnership is also the word that ANFIA's Mr Malandra uses to describe the increasingly tighter relationship in which front-rank Italian components firms are being called on to boost in-house capability

Few companies in Italy are escaping the shake-out, observes David Lane

for research. "Automobile makers are delegating as they decentralise, and this requires that components makers should be financially strong. The weakest are being sorted out."

As companies address a changing and challenging situation, they have had to increase their use of the state Cassa Integrazione Guadagni (CIG) fund for laying-off surplus labour. Mr Malandra says that precise figures are not available, but ANFIA estimates that about 10 per cent of the component industry's total workforce of 140,000 is being paid by CIG. Lay-offs at Automotive Products' plant have paralleled those at Fiat.

Few companies are unaffected by the present industry-wide shake-out, and Italy's biggest components group, Fiat

subsidiary Magneti Marelli, is undergoing a big re-organisation.

Last year this led to a reduction of 4,000 workers from a workforce that totalled about 30,000 at year-end 1990.

Magneti Marelli's 1991 accounts included expenditure of £255m on restructuring that has involved the closure of eight plants and rationalisation of production aimed at cost containment. The group says there is a 9 per cent improvement in productivity.

It notes that turnover rose 4 per cent in the first four months of this year, and that operating margins have improved, confirming the validity of the re-organisation. (Consolidated) accounts recorded a loss of £144m on £1.287bn turnover in 1991, but the group expects a return to profit in the medium term.)

In focusing on strategic business, Magneti Marelli has disposed of those that do not fit into its newly-defined portfolio. Its cable activities have gone to France's Labinal; seals to Britain's TI and horns to Fiamm, while batteries production has passed elsewhere in the Fiat Group.

With more stringent environmental laws causing a significant drop in carburetor pro-

duction, Magneti Marelli's efforts are increasing in the engine control sector which includes injectors and fuel pumps. The group's other key sectors are cooling, heating and air-conditioning systems, instrumentation, lighting and electro-mechanical equipment.

The main outlet for Magneti Marelli's production is its domestic original equipment market, with Fiat Group's Italian operations taking 29 per cent of the total. Automobile makers in France and Germany take 19 and 14 per cent respectively, and Magneti Marelli points to its Q1 status as a Ford supplier, Class A with Peugeot and Renault and supplier of the year with General Motors. But Magneti Marelli's horizons extend to the emerging markets in Turkey and Poland.

Foreign markets are important to a large part of the Italian automotive components industry. Mr Malandra says that between 20 and 25 per cent of the industry's total sales of £1.6bn last year were from abroad.

Italian makers of brake components rely heavily on sales abroad, with these accounting for more than half of aggregate

Continued from page 2
mann. Last year, it not only bought control of Boje, a maker of struts and shock absorbers, in a field where it already has one subsidiary, Fichtel und Sachs, it also went on to acquire VDO Adolf Schindling, the instrumentation and controls specialist.

More companies are likely to be snapped up in an industry which saw 50 take-overs between the start of 1988 and mid-1991 when the study - called "The Outlook for the German Automotive Supplier Industry" - was produced. In Germany, unlike Britain and France, medium-sized specialist companies are predominant in the parts industry. But they are having to invest more heavily to meet the demands of the motor industry at a time

when financial returns are falling and costs and foreign competition rising.

Thus, adds the SAC study:

"Many medium-sized companies in the German components industry appear to be under considerable threat. They have the largest changes to make and face the heaviest demands".

Their customers, the vehicle companies, are increasingly going abroad for their vehicle parts in an attempt to curb costs. So, to compete with foreign parts suppliers, German companies have also started moving outside their home base.

This trend is not being fol-

FRANCE'S CAR component industry, Europe's second largest, has played an essential part in supporting the campaign by Renault and Peugeot to reduce their productivity gap with Japan.

Michelin, the tyre group; Valeo, the diversified components maker; the glass maker, Saint Gobain; ECIA, the Peugeot components subsidiary; and Hutchinson, the maker of rubber parts and sealants, have made significant improvements in costs and quality in recent years.

Even so, France's largest component groups are significantly leaner and more efficient than they were only a few years ago. Valeo announced a 30 per cent rise in operating profits last year, reflecting productivity gains of 5 per cent. It was recently awarded top marks by Moody's, the rating agency, which classed Valeo's treasury bills as prime one, and described the French group's plants as "among the most efficient in Europe's auto components industry". As a result, Valeo, the company has shown that it can match rigorous Japanese demands.

This has been partly in response to pressure from their car-making customers, seeking to improve efficiency at all stages of the process. But it is also a result of the rigours imposed by the weakness of car demand, down by 0.6 per cent in France in the first four months of this year, according to the CCPA car makers' committee.

As a mark of just how far productivity has advanced, the French component industry's output grew by 25 per cent in real terms in the four years to 1990, while the number of employees fell by more than 2.5 per cent, according to a recent survey* by SAC Enterprises, the UK consultancy.

At present cars in Italy are subject to their first official safety check 10 years after registration. A new highway code should reach the statute book in January 1993 which will make the first check obligatory after four years, with subsequent checks every two years.

This ought to stimulate the spares market," he says.

Continued from page 2
towards quality and higher technology have been the largest players, while smaller suppliers are increasingly being forced into a secondary position, selling parts to the large component groups instead of directly to the car makers.

"Not all of the French suppliers have the R&D resources to meet these requirements. Some... will become second-tier suppliers," says SAC.

Many already have. Renault

plans to reduce its number of suppliers from 1,100 last year to around 600 or 700, while Peugeot has already cut back

from 1,700 suppliers in 1984 to

740 last year, according to the study. This is still many more suppliers than Japanese producers tolerate - Nissan has 160, for example - which suggests that the shake-out has much further to go.

If the big players are doing well, the middle and lower ranks of the French components industry shows worrying lack of dynamism, says SAC.

For one thing, the industry tends to be too centred on the French market, with the obvious exception of the top players such as Valeo, Michelin and Saint Gobain. This is a disadvantage when car makers are becoming more global.

At the same time, French car component companies are facing increasing competition in their own market. In recent years, several German companies have set up in Alsace, to take advantage of the relatively cheap labour costs, while ACG Europe, the GM subsidiary, has opened a chassis centre near Paris.

In 1990, NGK, the Japanese spark-plug maker, announced plans to open a plant in the Loire valley, and Koyo Seiko, a Toyota subsidiary, took a stake in Renault's steering systems division. Given France's continuing sensitivities over competition from Japan, observers do not expect a French repeat of the invasion of the US car components industry achieved by Japanese suppliers.

For the moment, the French automotive component industry appears to be holding its own internationally, as is shown by its continuing healthy trade surplus. However, the SAC study argues that the international exposure among medium-sized and small suppliers could be a serious handicap.

Crucially, the French industry is weak on electronic components, which form a growing proportion of the market as cars become more sophisticated. New products here are being increasingly developed outside France - and the growing number of foreign competitors in France could suggest that French suppliers are losing their technological edge, it warns.

* The Outlook for the French Automotive Supplier Industry in the 1990s, price £550. SAC Enterprises, 24 Northfield Avenue, London W15 9RL.

More efficient look

French component groups still have a long way to go to catch up, warns William Dawkins

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Exciting times

When financial returns are falling and costs and foreign competition rising.

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base.

This trend is not being fol-

lowed just to keep costs down, however. Big components companies like Robert Bosch, whose products include anti-skid braking (ABS) and fuel injection systems, have found it necessary to build plants outside Germany to be closer to individual markets. Thus Bosch has built a £100m plan for alternators in Wales to raise its share of the developing UK market, where Japanese investment has led to a new lease of life.

Among the vehicle makers, Mercedes-Benz is also looking towards the UK where it sees the potential to increase purchases of components from local companies offering com-

petitive prices. In addition, a number of German suppliers apart from Bosch, such as Siemens and VDO, have set up units in the UK to sell to the revived car industry there; others are following.

The car makers themselves are also finding it increasingly necessary to move abroad if they are to keep up with market developments. Hence the decision of BMW, a rival to Mercedes in the luxury segment, to invest in a new site in the US.

So while these may be exciting and fast-moving times for components and vehicle makers, they are also some of the most testing the German automotive industry has been through in the post-war period.

Andrew Fisher

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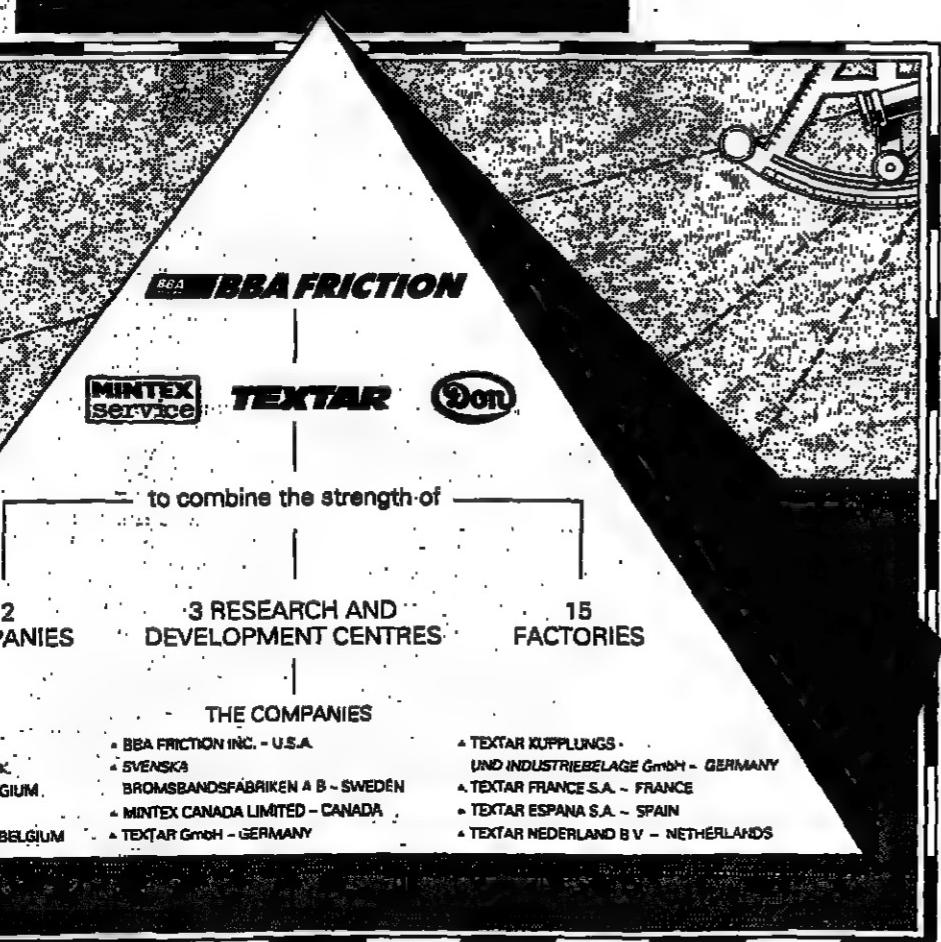
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WORLD AUTOMOTIVE COMPONENTS 4

Challenges mount as US vehicle makers face stiff competition

Buying policies overhauled

THE challenges facing the US automobile components industry were graphically underlined recently when General Motors summoned some 600 of its suppliers to a meeting in Michigan and spelt out a radical new approach to its purchasing policies.

GM's new approach should mean significant sales opportunities for the strongest, most efficient and most global components companies, but it is also likely to drive smaller, weaker operations out of business.

It is therefore likely to accelerate the consolidation that has already been taking place in the US parts industry over the past decade as companies have come to grips with global competition, a growing Japanese presence in the US market, profound changes in the way vehicles are made, and a severe North American recession.

The recession has meant a sharp drop in US car and light truck sales - from 13.8m units in 1990 to 12.3m in 1991 - and this year is expected to produce only modest recovery.

The Big Three automobile assemblers plunged heavily into the red in 1991. Their components suppliers, thanks to rationalisation measures which cut 100,000 jobs from the industry in the 1980s, suffered less severely, although many saw a sharp drop in profits, due to lack of demand and pricing pressures from Detroit.

For example, GM saved \$3bn in 1991 by demanding that suppliers cut prices over three years - by 3 per cent in the first 12 months, then by 2 per cent in the next 12 and another 2 per cent in the final year.

Just as the industry starts to emerge from recession, GM is now asking for more price concessions, under the new purchasing policy spelled out at the Michigan meeting by Mr Ignacio Lopez.

Mr Lopez, who helped turn around GM Europe in the 1980s through his innovative purchasing policies, has been given the task of doing the same in North America, following April's coup by GM directors disatisfied with the pace of change inside the business.

According to the unhappy suppliers, Mr Lopez has asked them to rebind on contracts

US Automotive Components Industry 1989

Rank	Corporation	Sales (\$m)
1	GM Automotive Components Group	29.0
2	Ford Automotive Components Operations	13.5
3	Goodyear Tire & Rubber	10.9
4	Dana	4.9
5	Allied-Signal Automotive	3.8
6	GM Hughes	3.5
7	Cummins Engine Company	3.5
8	TRW Automotive	2.4
9	Acitur	3.4
10	ITT Automotive	2.9
11	Rockwell Automotive	2.4
12	Eaton	2.1
13	United Technologies Automotive	1.9
14	Magna International	1.9
15	Tenneco Automotive	1.8
16	Masco Industries	1.7
17	Echlin	1.5
18	Arvin	1.2
19	Kelso-Hayes	1.2
20	Lemco Seating	1.1
21	Andrea-Mogul	1.1
22	Borg-Warner Automotive	1.0
	Gates Rubber Company	1.0
	<i>Estimate</i>	

Source: The Economist Intelligence Unit

US automotive components sector 1987-89

	1987	1988	1989
Value of product shipments (\$bn)*	87.8	91.4	96.0
Employment (000)	631	636	646
Shipments per worker (000)	139	143	148
Value of imports (\$bn)	26.8	31.0	33.2
Import penetration (%)	26.7	29.5	29.8
Value of exports (\$bn)	14.4	17.8	17.8
Exports as % of shipments	16.4	19.0	18.5
Trade deficit (\$bn)	12.4	13.6	15.3

*Excludes services provided by establishments in the automotive parts and accessories industry and tyres and batteries

Source: The Economist Intelligence Unit

they had already won for the 1983 model year and there are suggestions GM will no longer provide up-front money for the tooling suppliers need to make their components.

More positively for the supply industry, Mr Lopez said that GM's own huge, cost-cutting parts operations would henceforth have to compete for contracts with outside, non-union shops. And he offered GM's help in cutting suppliers' costs through a sharing of expertise and by holding out the carrot, for successful suppliers, of selling products to GM worldwide under long-term contracts.

For the most efficient suppliers, the overall effect should be positive. "The GM move has been heartening to the independent side of the business as a whole," says Mr Greg Macosko, an analyst in New York with Quest Advisory. "It gives the industry a look ahead into the future of motoring

sees a real opportunity out there."

The trend to global sourcing, and the use of fewer suppliers, linked closely with the vehicle assembler in a long-term relationship, is hardly unique to GM, who has long been common among Japanese manufacturers as a way of cutting costs and increasing quality and has been adopted increasingly by assemblers in North America and Europe.

The establishment by Japanese assemblers of plants in North America during the 1980s, and their heavy reliance on US subsidiaries of Japanese parts manufacturers, was a big setback to US-owned suppliers as the Japanese took an ever increasing share of the US market.

However, several factors may now slightly ameliorate, though not remove, this threat. First, statistics for the past few

Martin Dickson

A look ahead into the future of motoring

Tomorrow's car takes shape

THE proportion of a car's value represented by bought-in components is steadily increasing although the basic pattern of car manufacture has changed but little in recent years.

The vehicle manufacturer invariably produces the body shell, almost always the engine (with its own proportion of bought-in parts) and more often than not the transmission. All other components are purchased for direct installation, and this is the area in which car value has been increasing fastest.

The process will inevitably continue at a rate which will comfortably outstrip the growth of car production measured in raw units. Consumer demand for ever higher levels of comfort, performance and equipment have gone hand-in-hand with legislation for more

safety and cleaner exhausts to ensure this.

A particular area of technology that has become the component suppliers' preserve is electronically-controlled systems. While nobody should underestimate the electronic expertise of the vehicle manufacturers themselves, they are simply not in the business of producing electronic components in large numbers - unless they do so via dedicated subsidiaries, as do General Motors and Toyota, for example.

While the popular image of an electronic system is that of a "black box" computer which exercises control over the operation of some aspect of the car, the reality is that the black box and its contents are the (relatively) easy part. To exert control, the computer must first assess circumstances by means

of various types of sensor. It must then act to control the situation by means of output devices or transducers.

It is in the area of sensors and transducers that some of the most intense development of vehicle components is taking place, placing component-sector companies with related expertise, such as Germany's Bosch and Japan's NGK, in a very strong position.

The first serious application of electronic control systems to the car was in the management of engine operation. It is now commonplace to have a single computer controlling ignition and fuel injection, the latter particularly with the aim of reducing exhaust emissions.

New regulations concerning emission control systems have placed extra demands on systems and sensors: for example, US and Japanese legisla-

tion will shortly demand the in-car monitoring of catalytic converter efficiency, calling for oxygen content "lambda" sensors to be installed upstream and downstream of the converter.

The adaptability and availability of electronic engine control systems may yet bring about a revolution in basic engine design: none of the development teams now working hard on two-stroke engine projects would pretend they could make their units work properly without the speed and precision of electronic control.

Electronics has since migrated to the control of automatic transmission. No designer of such transmissions would today contemplate any other approach. Without electronics, the control mechanism of the latest five-speed transmissions would be too heavy and complex to be seriously contemplated.

Nor would there be any question of systems which adapted their shift patterns to the driver's own technique, as some of the new units do. With automatic transmissions in Japan now making the breakthrough to American levels of sales penetration, and with confident predictions that Europe will follow suit, this will be an important growth area.

Another transmission-related area in which rapid growth is

expected is that of traction control systems, which operate to detect incipient wheelspin and to prevent it either by cutting back power or by partial brake operation.

It is also expected that limited-slip differential units, with or without electronic control, will become much more widely fitted.

The chassis is the part of the car most recently to have felt the impact of electronic engineering. We have become more and more familiar with electronic anti-lock braking but today's developments go further. More and more up-market cars are now offered with electronic control of suspension operation, adapting its stiffness to the road surface and to the car's behaviour: soft when cruising on a smooth road, firm when driven briskly on a rough or winding one.

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months suggest that Japanese assemblers are finding it more difficult to gain market share. Second, there are increasing political pressures for them to buy parts from American-owned companies. Third, they seem a little more willing to "buy American" from companies which have convinced them of the quality of their products.

However, the opportunities for US suppliers making significant inroads in this area seem limited. At the same time, the 400 or so Japanese parts manufacturers which have set up in the US, and are often losing money in supplying their compatriots, may try to bid aggressively for business from Detroit.

An increasing number of the Japanese parts suppliers have set up joint venture operations in North America with US companies with the aim of serving the Japanese and American assemblers.

Mr Macosko believes that over the long term many of the American companies participating in these operations may simply lose their independent identity and be absorbed into the joint ventures.

Most of the strongest US components suppliers have long had a substantial presence in the European market, but most of them are now seeking to reinforce this, through acquisitions and green-field investments, in fast-growing sectors.

For example, Cleveland-based TRW is investing some \$500m on its power rack and pinion steering business to meet growing demand, much of it in western Europe.

And Morton International, the Chicago-based group, recently announced plans to invest in a joint venture with Robert Bosch, the German engineering group, in a European plant to make emergency airbags for cars.

Morton has the biggest share of the US market for airbags, which is expanding rapidly thanks to consumer demand and government regulation. Morton sees big potential in the European market, where airbags are rare at present, as does TRW, its main US rival in the business.

However, several factors may now slightly ameliorate, though not remove, this threat. First, statistics for the past few

Balance of US automotive parts trade, 1985-89 (\$m)				
	1985	1986	1987	1988
Total balance	(2,710)	(10,045)	(12,419)	(13,568)
Brazil	(490)	(760)	(935)	(674)
Canada	1,576	(55)	636	(167)
EC	(282)	(2,386)	(3,176)	(2,693)
France	(307)	(667)	(554)	(518)
West Germany	(513)	(11,269)	(1,710)	(1,463)
Italy	(74)	(214)	(355)	(327)
Japan	(2,060)	(5,599)	(7,042)	(10,536)
South Korea	(315)	(282)	(340)</td	

WORLD AUTOMOTIVE COMPONENTS 5

The Japanese 'spend' on components in Europe will be £3bn by 2000

Tempting carrot for invaders

MAZDA, Japan's fourth largest car maker, is preparing to announce before the end of this year precisely how and where it will begin car manufacturing in Europe.

It will be the seventh – and probably the last – Japanese vehicle maker to do so, joining Toyota, Nissan, Honda, Mitsubishi, Suzuki and Isuzu.

The combined production volumes involved represent important business to those European component makers who have already secured contracts or are competing for the newer projects.

Toyota is about to start production of Corolla saloons at its 270m Burnaston plant in the UK in December, with engines supplied from a xiadon manufacturing facility in Deeside, north Wales. Burnaston is due to produce 200,000 cars a year by the mid-1990s. By then, EC content should be more than 80 per cent, compared with 80 per cent next year. Many industry observers, pointing to a precedent being set by Nissan, expect Toyota's output to be nearer 400,000 by the end of the decade.

Nissan, whose plant at Sunderland is preparing to build a new version of its Micra small car as well as the Primera range, this year unexpectedly announced an expansion of its 220,000 capacity to 300,000 from next year. It has already hinted that output will be 400,000 a year by the end of the decade. Significant developments are also afoot at Nissan Motor Iberia, Nissan's Spanish manufacturing centre, where a new "multi-passenger vehicle" (MPV), the Serena, is

starting production alongside Nissan's Patrol four-wheel-drive vehicle. Yet another 4wd leisure vehicle, developed jointly with Ford, is also to be produced at the plant.

By late autumn, Honda's plant at Swindon, Wiltshire, will have gone on stream alongside its engine plant which already produces more than 100,000 engines a year.

Swindon is to produce the Syntech medium saloon at an initial rate of 50,000 a year, to be joined by the successor to the smaller Concerto from 1995.

Motor industry analyst Professor Gerval Rhys, of Cardiff Business School, believes that Honda will be producing double its declared target of 100,000 cars a year by well before the end of the decade.

Mitsubishi Motors, Japan's third biggest producer, has created a joint venture with the Dutch government and Sweden's Volvo to produce 200,000 cars a year in the Netherlands by the late 1990s.

Suzuki's European manufacturing operations are in Spain, where it builds more than 20,000 SJ and Vitara 4wd leisure vehicles a year. However, it is also setting up a joint venture plant to build its Swift range of small cars in Hungary, with the long-term goal of 100,000 units a year.

Not least, IBC Vehicles, a UK-based joint venture between Isuzu and General Motors, is producing light commercial vehicles and the Frontiers, a leisure 4wd, with a capacity of 100,000 vehicles a year.

Nissan's expansion in the UK will lead to component pur-

chases from European suppliers jumping from £500m last year to £850m in 1993, according to Mr Ian Gibson, managing director of Nissan Motor Manufacturing (UK). Of this, some 285m will be spent with 122 UK component suppliers or UK subsidiaries of foreign-owned groups, including a handful of Japanese joint venture concerns.

However, that leaves nearly £200m worth of business being placed directly with Continental suppliers.

Suppliers from 11 countries have contracts with the Toyota manufacturing operation, which embraces nearly 170 component makers – whittled down from an original list of 1,850 applicants. More than half of them are based in the UK. Toyota's declared annual spending with European suppliers will be £700m in full production – but, like Nissan, is likely to move nearer the £1bn mark on a 400,000 production level.

Honda has appointed 138 European and two US suppliers for its £300m Swindon plant. The 88 UK-based suppliers include most of the industry's biggest names, including BBA's Automotive Products division, supplying clutch assemblies and Lucas Automotive parts ranging from brake systems to wiring harnesses.

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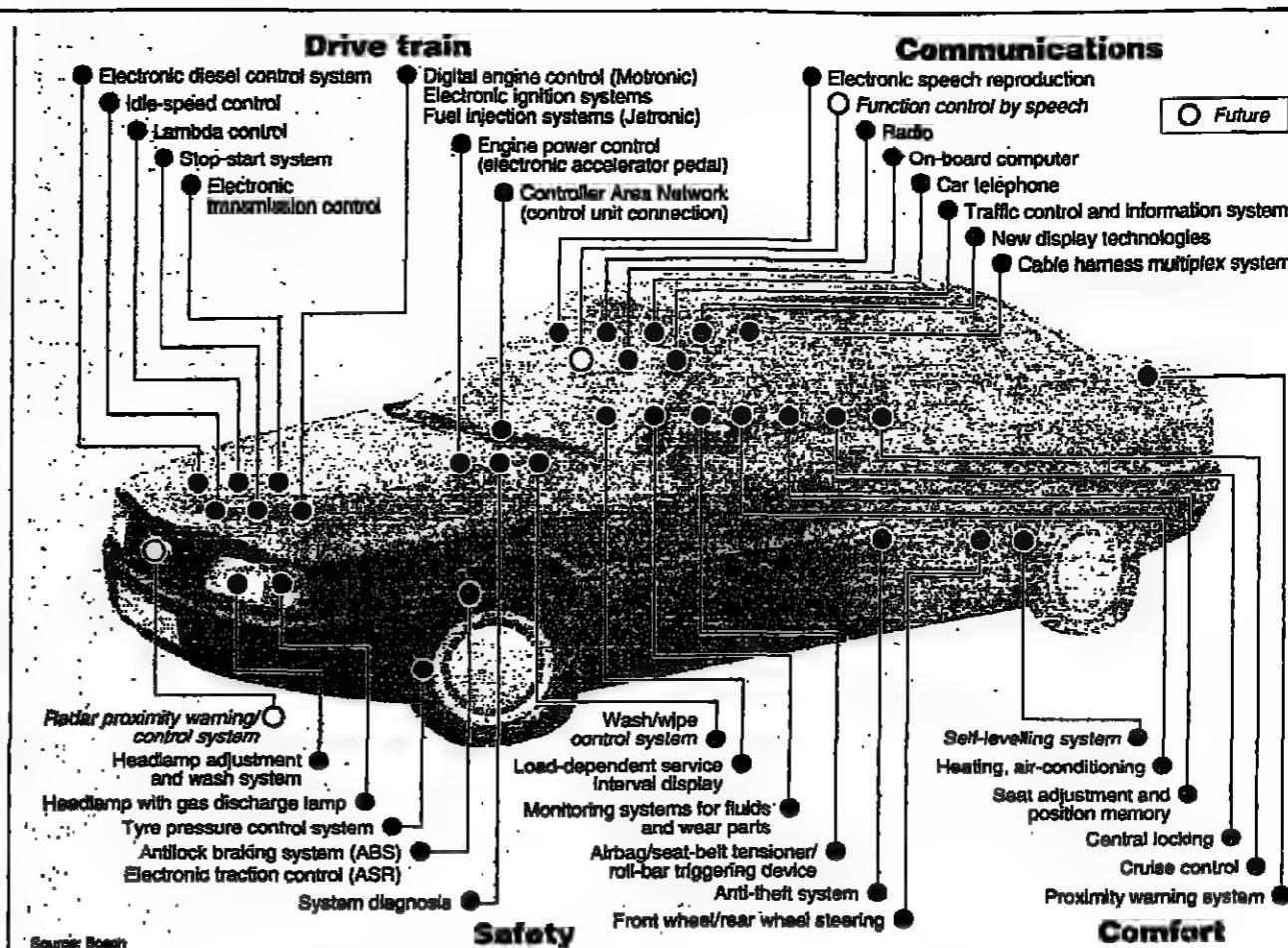
This contrasts with the undisguised enthusiasm some groups are displaying towards the development of their Japanese "transplant"-based business, and the knock-on effect it is having in terms of improved productivity and quality throughout their other business activities.

For example, the Unipart Group of Companies (UGC), the former components and accessories division of the UK's Rover Group, is moving rapidly towards the wholesale adoption of Japanese working practices and attitudes across all divisions of the 4,000-strong company.

Nevertheless, Mr Yukihisa Hirano, Toyota managing director, has explicitly rejected the notion that over the long term, Japanese component companies will move in to take more of the business, declaring that "Toyota has never asked any Japanese companies to set up in Europe".

Indeed, according to a study of the European components

John Griffiths



Car of tomorrow takes shape

Continued from page 4

other things, engineers have long since moved on from considerations of mere ride comfort to study the subtle effects on car stability and handling of varying suspension stiffness between the front and rear of the vehicle. Further into the future, chassis specialists are examining the possible advantages of electronic "steer by wire" replacing mechanical linkages.

The components industry has already greatly benefited from the much greater amount of comfort and convenience equipment now fitted especially to up-market cars. There has been a trend towards the power operation of almost anything that moves. Electric windows and central locking can now be precisely aware of its position (and duly to inform its driver) and thus to be able to calculate the shortest and quickest route to its programmed destination, taking account of any temporary delays and ensuring safety via automatic vehicle separation

quarters that such developments are driving up the weight, the complexity and the cost of cars to undesirable levels, the trend seems inexorable. Serious consideration has already been given to multiplexing and "databus" systems to reduce the now huge amount of wiring in modern luxury cars.

Beyond the area of mere comfort and convenience, there looms the huge potential market for equipment to link cars with each other and with the environment – the kind of equipment beginning to emerge from the pan-European Prometheus research programme, for example. It is now possible to conceive of equipment which would enable a car to be precisely aware of its position (and duly to inform its driver) and thus to be able to calculate the shortest and quickest route to its programmed destination, taking account of any temporary delays and ensuring safety via automatic vehicle separation

and optimised road-space sharing.

Any such system would inevitably be a high-value item, and would certainly be supplied by the component manufacturing sector. Virtually all the necessary technology has already been demonstrated: the

Jeff Daniels

Profile: NIPPONDENSO

Ready to supply transplants

Japanese automotive components industry 1989

Companies with sales of more than \$1bn

	\$m
Nippondenso	5,055
Bridgestone	3,795
Sumitomo Rubber	3,015
Bumitomo Metal	2,651
Alain Seiki	2,388
Bumitomo Electric	1,970
Yazaki	1,848
Diesel Kiki	1,757
Yokohama Rubber	1,684
Mitsubishi Electric	1,515
Koyo Seiko	1,507
Mitsubishi	1,500
Toyo Tire & Rubber	1,382
Calsonic	1,223
NTT	1,275
Toyoda Gosei	1,250
NEC Corporation	1,159
Kold Manufacturing	1,158
Airbus Union	1,122
Asahi Glass	1,014
Nippon Seiki	1,008
Total	46,985
Number of companies	21
Segment average	2,232

Source: The Economic Intelligence Unit

national (UK), the holding company for the group's European manufacturing operations, says Nippondenso had a turnover in Europe of around £170m in 1991, largely on imports from Japan.

By 1995/96 – when both the Toyota and Honda car plants should be reaching their outlined capacities of 200,000 and 100,000 cars a year respectively

– Mr Ohiva forecasts the company's turnover in Europe should have tripled to more than £450m a year, of which 75 per cent will be from the UK.

Mr Ohiva acknowledges it is proving difficult to develop a new customer base in Europe.

Nippondenso has based its long-term European strategy, however, on deriving half of its sales from the Japanese transplanters and half from the traditional European car makers (including Ford and GM).

Nippondenso has strong backing for its international expansion.

It is firmly anchored in the sphere of Toyota, financially probably the strongest of the world's car makers, which holds a 23.3 per cent stake in the company. Toyota, Japan's largest and the world's third-largest vehicle maker, in Nippondenso's biggest customer, accounting for around 50 per cent of its turnover.

The company's main strengths are in car heaters and air conditioners, which in 1990 accounted for 35.3 per cent of consolidated group sales of Y151.5bn (£5.4bn), and in electrical automotive and electronic control products which contributed 30.4 per cent of group sales. Fuel management systems accounted for a further 15.2 per cent of sales and radiators for 5.8 per cent. Net profit peaked at Y63.1bn (£497m) in 1990, but pre-tax profits fell by around 25 per cent last year.

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The first step was the announcement of an intended 50:50 joint venture in Spain for distributorless ignition coils with Valeo, the leading French

Mr Mitchio Ohiva, managing director of Nippondenso Inter-



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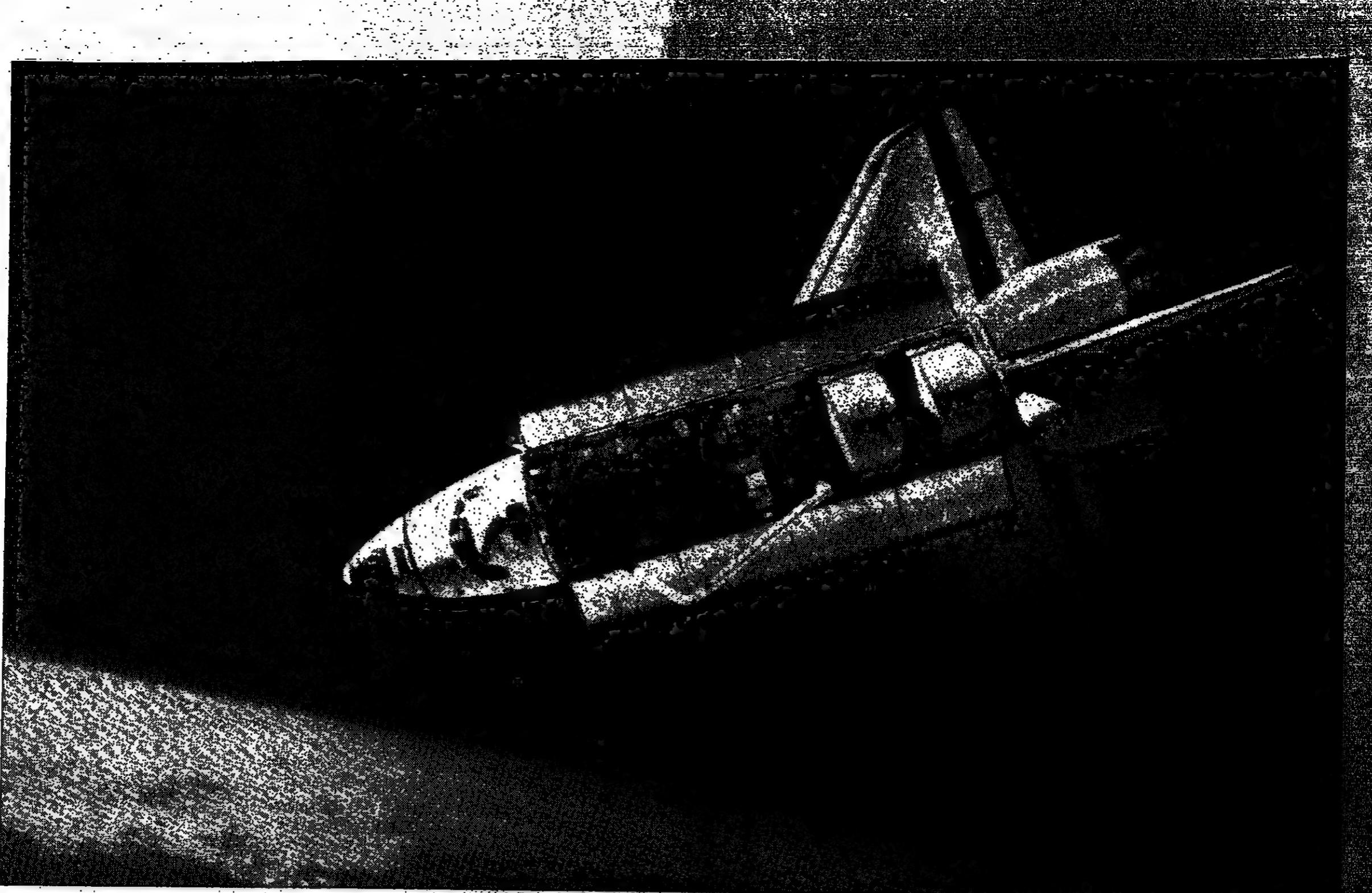
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FINANCIAL TIMES SURVEY

BAHRAIN

Tuesday July 14 1992

The economy: a new long-term strategy is planned - see page 2

SECTION IV

Quest for greater economic diversity

Bahrain has only modest oil reserves, but it has become an important financial and trading centre in the Gulf. Now the island-state is seeking an even more diversified economic future, writes Roger Matthews, Middle East Editor

LAST year's great escape by the Arab nations of the Gulf from the predatory grasp of President Saddam Hussein of Iraq is not providing the long-term relief that seemed probable at the time. Official optimism abounds, but there is also a growing appreciation that the American-led military victory has done little to resolve the economic, financial and political tensions of the region. Bahrain has more reason than most to regret the failure.

With a population of 518,000 - 35 per cent of whom are expatriates - and limited natural resources, it relies heavily on international confidence, relative regional stability and a measure of neighbourly co-operation. Bahrain's economy is underpinned by a modest 112,000 barrels of oil a day,

just 42,000 barrels of this produced onshore, the rest coming from an offshore sharing arrangement with Saudi Arabia.

Since independence in 1971, the most obvious of Bahrain's economic characteristics has been that it will be the first Gulf nation to face a future substantially without oil. At current rates of extraction, its onshore field will cease pumping early in the next century.

That mattered less before the Gulf war. Now that its wealthiest neighbours have used most of their financial reserves to fund the international war effort, Bahrain has less of a safety net and an even greater need to plan a more diversified economic future.

That imperative goes some way to explain the apparent contradiction of Bahrain simul-



Sheikh Isa bin Salman al-Khalifa, the Emir of Bahrain, has guided his country with admirable steadiness. The economy is underpinned by an output of around 112,000 barrels of oil a day

State revenue	
1992 total: 488 million Bahrain Dinar	
Oil and gas	314 million BD
Fines, penalties & misc.	3.7 m BD
Int. index of capital assets 0.9 m BD	
Source: Ministry of Information	
Goods and services	73 million BD
Taxation and fees	63 million BD
Investment & property	25 million BD
Grants	18 million BD

taneously providing base facilities for the US Navy, while urging better relations with Iraq. The paramount need for military security is dealt by the US, but Iraq and Iran (neither noted, in the past, for kindly intentions towards Bahrain) are inescapably part of the Gulf's economic future.

Those most involved in planning Bahrain's future talk most about Singapore: "a model for small, island nations," as one senior official put it. Bahrain would like to see itself fulfilling, within the Gulf Co-operation Council (which includes Saudi Arabia, Oman, Kuwait, United Arab Emirates, Qatar and Bahrain), several of the roles which Singapore has developed within the Association of South East Asian Nations (Indonesia, Malaysia, Thailand, Philippines, Brunei and Singapore).

For example, Bahrain wants to expand further as an offshore banking centre offering an increasingly sophisticated range of services. It wants to become the principal tourism destination in the region, serving local markets, especially Saudi Arabia, while forming part of multi-destination international tourism.

It also aims to attract more international companies to establish their regional headquarters and supply centres; to dominate the local conference and exhibition market and, by offering 100 per cent foreign ownership, to persuade more private investors to look at opportunities for longer-term industrial development.

In the wake of the Gulf war a rash of border disputes has resurfaced, including Qatar's claim to sovereignty over the Hawar islands, an area close to one-sixth of Bahrain's total land area.

Bahraini officials were dismayed by Qatar's unilateral approach to the International Court of Justice and by its declaration of territorial waters stretching close to Bahrain's beaches. (Why Qatar chose this path is not understood in Bahrain, but the possible interpretations of Doha's motives make fertile ground for conspiracy theorists.)

The resurgence of Iranian influence in the Gulf, under what is supposed to be an emphatically more pragmatic leadership, has created economic opportunities and political anxieties. Bahrain's bankers travel hopefully to Tehran; in the meantime its internal security forces keep wary eyes on hundreds of Iranians attending the biggest trade fair in Manama since the overthrow of the Shah.

On present revenue estimates it will need to borrow or (better) to be given most of the capital for the development projects required both for diversification, and to create new jobs.

But Bahrain's capacity to borrow is limited, and support from other Gulf countries is running at only a third of promised levels. Of the annual sum of \$150m pledged to Bahrain, no payment has been received from Abu Dhabi since 1982, and Kuwait stopped paying in 1990.

"We are grateful to Saudi Arabia for being the one country to meet all its commitments," says Mr Ibrahim Abd al-Karim, the minister of finance and national economy.

Sheikh Khalifa bin Salman al-Khalifa, the prime minister, emphasised in an interview that Bahrain had not sought compensation from its wealthier Gulf partners for the serious losses it had suffered during the crisis; neither had any been offered. What was more important for Bahrain, he

stressed, was long-term economic regional agreements, especially those which aimed at preventing duplication of effort.

In the absence of such agreements, Bahrain hesitates to embark on projects; their viability could be undermined by its neighbours. The prime minister, choosing his words with care, says that business tends to go where there is most liquidity. (In other words, to countries with more money than Bahrain.) To offset this tendency, Bahrain would like a commitment from its GCC partners not to compete in specific areas.

Its chances do not look good. While international military intervention has blunted the aggression of Saddam Hussein, it has done nothing to defuse other, lesser, regional sensitivities.

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On the other hand, security was a life and death issue for Bahrain. It was difficult to be a good democrat if that meant sacrificing security, he said. Recent events in Algeria will have reinforced that view.

The absence of greater public accountability, however, does limit the effectiveness of Bahrain's search for a more broadly based economic future.

Studies of Singapore will have revealed other, perhaps more pertinent, reasons for that country's economic achievements. Singapore has a functioning if rather regimented parliament. Singapore ministers and senior civil servants

are well paid, but face severe penalties if found guilty of any financial impropriety. Singapore's working population accepts taxation; enforced savings are deducted at source; there is a national acceptance that the state provides nothing for free.

Few of those items are likely

to figure on the agenda of either government or governed in Bahrain. On the contrary, the traditional family-oriented, paternalistic style of national management shows every sign of persisting.

After the successive Gulf wars of the past decade, it can be argued that Sheikh Isa bin Salman al-Khalifa, the Emir of Bahrain, has guided his country with admirable steadiness and that there is little demand for change. Neither, perhaps,

will there be, while the national exchequer is sufficiently well funded to maintain popular expectations.

With over 60 per cent of government revenue coming from oil, limited opportunities for reducing recurrent expenditure and the population increasing at about 3.4 per cent annually, the Bahrain government is aware that something will have to be done.

Its strategy for facing a future without oil may not appear entirely convincing, but perhaps it need not be, given the relatively small contributions required to put the national finances on a more even keel. No country in the Gulf sees a greater need for regional stability, prospering local economies and - critically - open-handed friends.

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Bahrain is an archipelago consisting of 33 islands - the largest is Bahrain Island.

The country has a stable, progressive, liberal government, supportive of private enterprise.

Bahrain's currency, the Bahraini dinar (= 1,000 fils), has been pegged to the US dollar for more than a decade.

Arabic is the official language. English is widely spoken in business.

Bahrain International Airport is one of the busiest in the Gulf.

Flight times from Bahrain to leading regional centres: In an hour: Abu Dhabi, Dubai, Kuwait and Riyadh; Doha, 40 minutes; Dhahran, 10 mins; Muscat, 1 hr 30 mins; Jeddah, 2 hrs 10 mins; Tehran, 2 hrs; Karachi, 2 hrs 30 mins; Delhi, 3 hrs.

The telecommunications system is among the most advanced in the world.

Bahrain's climate is hot in summer and mild in winter.

Temperatures are coolest from December to March; the most pleasant period is from November to April.

Compared with leading European and US cities, the costs of hotel accommodation, labour, office rents, electricity and water are reasonable; and even within the Middle East, they are competitive.

Main exports include: mineral fuels, aluminium, refined oils and lubricants.

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ALUMINIUM INDUSTRY

Cheap power sets the pace

THE aluminium industry in the Gulf is fast coming to rival the trend set by the cement industry in the region - a development which apparently, no self-respecting state can be content without.

Bahrain set the pace by establishing its Alba aluminium smelter in the early 1970s. Dubai followed with its own smelter a few years later.

Iran began work on one this year, and the Saudis are still investigating whether they can build an aluminium plant with the help of one of their offset investment programmes. Even Qatar is said to be thinking of joining the fray.

The compelling logic behind these moves is cheap power

derived particularly from the region's huge supplies of gas. "Our energy costs are not quite as low as from, say, a Canadian hydroelectric plant - but they are not much more expensive," says Mr Guivin.

For such reasons, Mr Toft sees no reason for Bahrain's smelter to fear its new local competitors - "it won't matter," he says. "Particularly with the shutdown of aluminium capacity in Europe."

Where other regional smelters could pose some threat, though, is to Bahrain's downstream aluminium sector; the government has high hopes that this will suck in foreign investment and offer just the sort of labour-intensive growth

the island needs to hire job-seeking Bahrainis, who now make up about 85 per cent of the up and downstream industry's workforce.

The more Gulf countries which can offer potential investors the advantage of a smelter on their doorstep, the more thinly spread any downstream investment will be in Bahrain.

But the island has had some early post-Gulf war successes. Reynolds, the US metals group, has committed itself to a \$40m (or so) joint venture with local investors to build an aluminium foil plant, and Alcoa, the US aluminium giant, is also planning a smaller aluminium bottle closure plant on the

island, also with local investors.

Local downstream industries are also seeking to expand - to head off regional rivals, and to absorb the new supplies of metal coming from Alba's expansion programme.

"It's a question of survival," says Mr Mahmoud al-Soufi, general manager of the Bahrain Aluminium Extrusion Company, one of the island's four main first-tier downstream operations. "To be competitive we have to expand, be more efficient and start recycling metal."

By October, a month ahead of schedule, Alba expects to have completed its \$1.5bn plan to raise production capacity to 460,000 tonnes a year. The smelter, which is 77 per cent owned by the Bahrain government, 20 per cent by Saudi Arabia and 3 per cent by Breton Investments, a German company, will then be considerably the Gulf's largest, and the third biggest single-site smelter in the world.

Dubai, Dubai's smelter, also completing an expansion, now produces 240,000 tonnes a year. The Iranian smelter (being designed and built with help from Dubai) is expected to come on stream in 1994 with output of 220,000 tonnes later rising to 350,000 tonnes.

ABOUT half of Alba's present output of 250,000 tonnes a year is absorbed locally; once the expansion is complete industries in the area are expected to purchase about 150,000 tonnes of ingots. The remainder will earn Bahrain in the region of \$600m a year in export sales at present prices.

Most of the domestically-consumed metal will go to Bahrain's four main downstream operations: the 51 per cent government-owned Bahrain Aluminium Atomiser Company; the private Midas Cable company; the state-controlled Balexco and the Gulf Aluminium Rolling Company (Garmco), owned jointly by Bahrain and a string of other Gulf governmental shareholders.

Each, now, is either considering or finalising expansion plans. Perhaps the most ambitious of these will be at Balexco; late last month it concluded agreement with Finleader, the Italian group, to build a new extrusion and recycling plant in an investment worth about \$35m. The joint venture company, in which Finleader will have a 49



Gulf Aluminium Rolling Mill Company (Garmco): selling into tough US and European markets

per cent interest, will be called Gulf Aluminium Industries Company. It will nearly treble Balexco's original design capacity to about 18,000 tonnes a year.

Balexco, which was established in the 1970s to provide building materials for the Gulf's then booming construction sector, has seen this market dwindle with the recession of the mid-1980s; it has only begun to recover in the last year or so.

It's simply no recognition here of the division of labour," reflects Mr Hubail. Until the GCC puts more emphasis on its middle initial, therefore, the success of Bahrain's new marketing drive will depend largely on factors outside its control.

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GCC-owned investment vehicle and Iraq also have holdings in the venture.

Garmco's intention is to shift focus - from selling mainly construction products into the competitive furnace of the US and European markets - into developing higher added value can-stock and lithographic plates to the Middle and Far Eastern markets.

After expansion, Garmco expects to be producing 30,000 tonnes of can-ends and tabs and up to 10,000 tonnes of lithographic plates.

It also hopes to raise profitability, from levels about which - given its private, sovereign shareholders - it is now silent, by boosting output with a minimal increase of 60-70 workers.

Mark Nicholson

Further attractions for investors

□ Continued from facing page:

registration which could previously have taken a prospective investor around two, or even four separate, ministries.

The BMPO also offers seven-day registration for big-name companies, hand-holding through the early stages of an investment and a collection point for all Bahrain's previously scattered promotional efforts.

Furthermore - and this measure is more softly spoken by officials - the government also appears to be taking a more relaxed approach to Bahrainisation - the desire for companies to hire as high a proportion of Bahrainis as possible.

Although the greatest aim of attracting foreign investors to the island is to assure employment for young Bahrainis, a big percentage of whom (unadmittedly) are presently jobless, the government appears to have decided that it should not allow Bahrainisation to be an obstacle to attracting companies in the first place. "Bahrainisation is not meant to be a penalty," explains one official.

It is early to assess the success of these new measures; the BMPO, for instance, is only 9 months old, and presently has a staff of just three. Nevertheless, the moves have

already attracted Ericsson, the Swedish multinational to set up a regional headquarters in Bahrain, while Digital, the US electronics group, has decided to establish its regional base on the island, complete with a bonded warehouse and distribution centre.

Mr Tony O'Rorke, adviser to the BMPO, says a "good dozen other companies" are set to follow.

On a smaller scale, the government has also established the Bahrain Development

Bahrain's best business ideas are frequently copied by other Gulf countries

Bank, with initial capital of BD10m, to foster small, local businesses by offering loans, venture equity stakes and management consultancy. Last month the bank approved its first four loans, worth a total of BD500,000, and is processing applications from a further 50 businesses and individuals.

The bank is not only Bahrain's first development institution - something all other Gulf states possess. It hopes also to become a semi-independent repository of economic and financial advice on the island. Most other sectors of

the economy have also geared up behind Bahrain's new drive. The airport, for instance, last year added nine new carriers to the 29 previously using the island in what its officials describe as a new "open skies" policy with a touch of common sense."

Multinational aluminium companies are being courted, with some success, to develop the island's industry downstream of Alba, its large smelter. Travel writers are also hearing the idea in mind. "I believe we have good ideas, we have a good basis for development," says Sheikh Khalifa.

"But business goes mostly to where there is more liquidity."

The difficult truth for Bahrain (a truth the government well knows) is that the poorest of the Gulf Co-operation Council (GCC) states (the members are Saudi Arabia, Kuwait, United Arab Emirates, Oman, Qatar and Bahrain) is always the one to suffer most from the six countries' predilection for duplicating each other.

"There is simply no recognition here of the division of labour," reflects Mr Hubail.

Until the GCC puts more emphasis on its middle initial, therefore, the success of Bahrain's new marketing drive will depend largely on factors outside its control.

Mark Nicholson

ARAB BANKING CORPORATION (B.S.C.)

FINANCIAL HIGHLIGHTS AS AT 31 DEC. 1991

Financial Highlights-1991

	1991 (in million of US\$)	1990
Total Assets	20,451	20,549
Total Loans & Advances	11,038	11,028
Marketable Securities	1,459	1,060
Deposits with Banks & other Financial Institutions (Placements)	6,377	6,754
Total Deposits	16,846	16,618
—Deposits from customers	10,525	10,876
—Deposits from Banks & other Financial Institutions	6,321	5,742
Total Capital Resources	2,124	2,099
Shareholders' Funds	1,911	1,386
Pre-tax Profit*	90	(47)

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Power Plant Belgian Export Credit Facility
Power Plant German Export Credit Facility
Power Plant Italian Export Credit Facility

US \$ 35,000,000
US \$290,000,000
US \$104,000,000

Smelter Equipment French Export Credit Facility
Smelter Equipment German Export Credit Facility

US \$120,000,000
US \$150,000,000

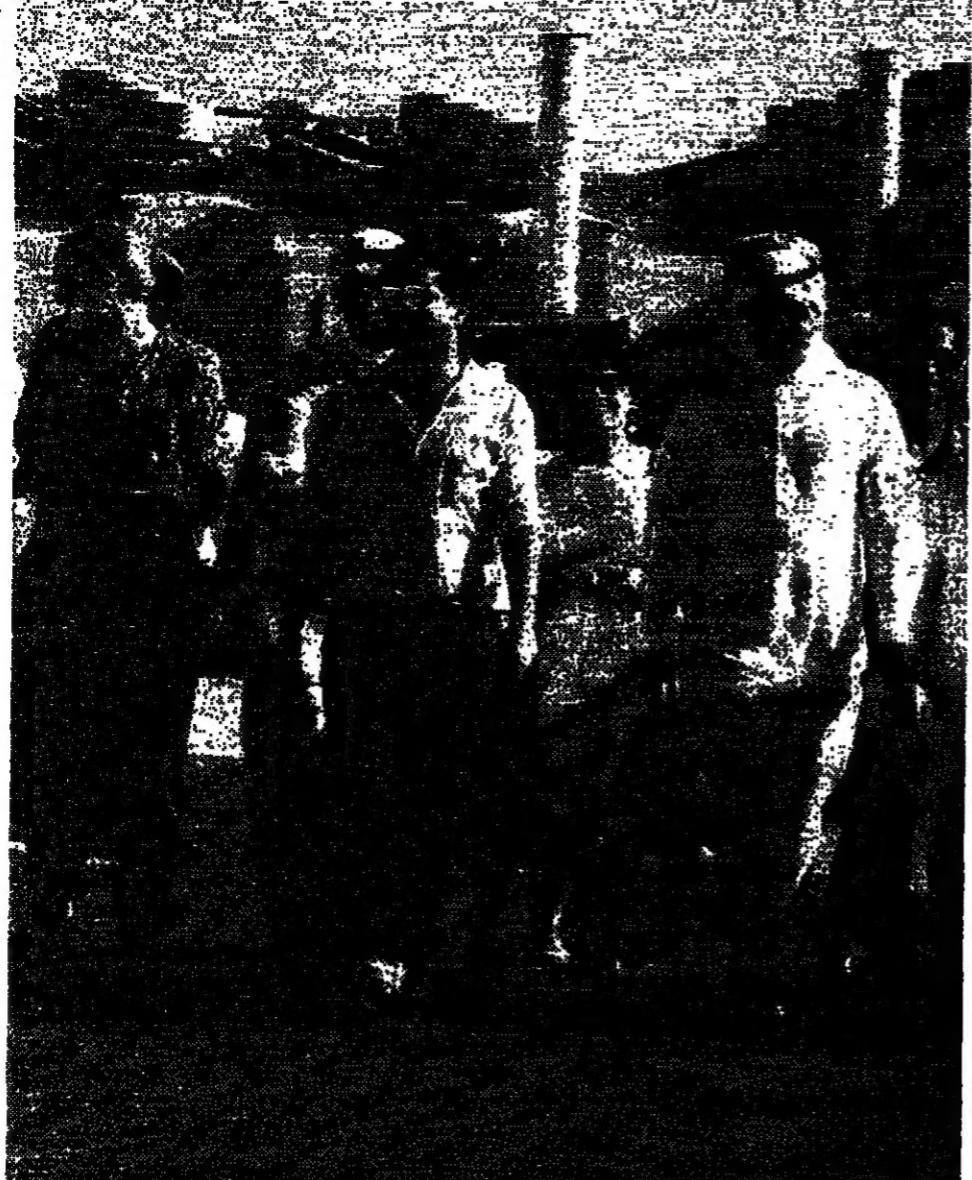
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More than 120,000 non-Bahrainis live and work among the people of the Island-state

IN AN ideal world of petro-dollar surpluses and friendly neighbours, the need for change would not even be raised. But ruling families along the western shores of the Gulf are increasingly having to face the same broad issue of how much or how little political adaptation may be required to meet a markedly new set of economic circumstances.

The fact that new political structures are being erected, albeit at a snail's pace, reflects the impact of unfriendly neighbours, flat oil prices, a high level of defence expenditure and the prospect of persistent budget deficits.

Oman now has a consultative council which has been asking ministers some hard questions. Saudi Arabia, after more than a decade of waiting, is to have its own consultative body - but with powers and membership still to be defined. Kuwait goes to the polls in October to elect a national assembly. If it is anything like its predecessor, forcibly dissolved in 1986, ministers may again be in for a rough ride.

It would be wrong to conclude from this that the Gulf is in the first flush of a democratic experiment. On the contrary: the experience of Algeria

Roger Matthews on the prospects for political change

Economic changes add to the strain of adaptation

will have confirmed governments in their view that political liberalisation is a topic to be approached with the greatest caution.

Bahrain was seen, in the years immediately after independence, as a democratic model for the region. But in 1975, after clashes with the government, the national assembly was dissolved, never to be resurrected. Sheikh Khalifa bin Sulman al-Khalifa, the prime minister, is not unhappy with the concept of a consultative council for Bahrain, but has said that his country will not lead the region on this issue - "we cannot be singled out to be the good Samaritan," he said, during an interview.

There is particular reason for the prime minister's caution. There are 336,700 indigenous Bahrainis and more than 60 per cent of these are Shia Mos-

lems. The ruling family is Sunni. After the revolution in Iran in 1979, and the creation of an Islamic republic under the spiritual guidance of Ayatollah Khomeini, the export of militancy became one of the central aims of the regime.

Bahrain, with its majority of

The squeeze on finances is placing a strain on the provision of free public services such as health and education. Modest attempts have been made to boost revenues, although income tax is deemed to be politically impossible

Shia (many are of Iranian descent), was a ready target. The Tehran government urged Bahrain's Shias to demonstrate against their rulers; from 1979 until 1988 a series of incidents on the island ranged from demonstrations to discoveries of arms caches. The efficiency of

Bahrain's well-staffed and British-advised security forces contained the threat until the exhaustion of the revolution in Tehran. However, the Iranian political establishment is far from monolithic. Whatever the protestations of President Ali Akbar Hashemi Rafsanjani,

rests, however, must eventually become less secure as, in common with governments throughout the Gulf, Bahrain finds itself unable to provide all the benefits to which its citizens have become accustomed.

The overall rate of population increase is estimated at 3.4 per cent; job creation is already one of the government's main preoccupations.

Unemployment is officially put at 6.4 per cent, but western embassies believe it may be much higher; some estimates show it running at up to 20 per cent. (In part that might reflect the local distaste for particular forms of employment, and for less secure private sector jobs.)

The squeeze on government finances also places additional strain on the provision of free public services such as health and education. Some modest - and heavily disguised -

B

AHRAIN's biggest tourist attraction dare not speak its name.

However hard the island markets its virtues as a tourist destination - and the government is marketing these more vigorously than ever - it will not advertise its liberal drinking laws as being among them. Islamic propriety prevents the government from selling Bahrain on the basis of its bars. But since Bahrain's neighbours prevent the selling of alcohol altogether, little selling is required.

More than 1.4m people arrived in Bahrain last year for tourism or recreation - 75 per cent of them fellow Gulf Arabs. An average of around 180,000 of these visitors a month arrived over the 25km causeway which links Bahrain to the eastern province of Saudi Arabia, which is very strictly teetotal - "the Saudis, very bluntly, come here for R and R," says one official.

It would not be entirely accurate to claim that these visitors all crossed into Bahrain just for a weekend drink (by far the majority cross only for the day and a half of the Moslem weekend) - although numerous expatriate workers with Saudi Aramco, the kingdom's giant oil company based over the causeway in Dharan, make no bones about the fact that they do.

Whatever Bahrain's additional attractions, and these include a good number of Arab

and western-style nightclubs, several top-of-the-range hotels and restaurants and a generally accommodating atmosphere, Bahrain's weekend popularity adds up to an industry worth, by government estimates, more than \$1bn a year - more if the figure is correct, than its aluminium smelter, for instance.

It also adds up to a growing and labour-intensive industry which the emir is, given its acute need to create jobs for young Bahrainis, exploiting to the hilt.

According to government figures, the hotel industry in 1990 employed just 656 Bahrainis out of a total workforce of 3,243. However, Mr Tariq Almoezay, the minister of information who is responsible for tourism, believes that as many as 10,000 Bahrainis could eventually be employed in the sector.

On the path to that, as yet

far distant, dream, Bahrain has set up a hotel and catering training centre, which injects 200 Bahrainis a year into the industry and which this year will add a year-long course in travel and tourism to its curriculum.

The island is also adding fast to its hotels, particularly those of two- and three-star which cater for the bulk of visiting Saudi and other Gulf families, on the basis that each new room equates roughly to one new job. Bahrain already has 23 two- and three-star hotels

and an additional 10 are being built. "With relatively small investment, you can create very large opportunities for employing Bahrainis," says Mr Almoezay.

The government's Tourism Development Company is also expanding - to the extent that it can afford - the range of attractions offered on what is, to be honest, a fairly small and featureless island. The company has set up bus tours, duoway trips to nearby Dar Island and has just completed an impressively housed Arabic restaurant, in full wind-tow-

er Gulf style, beside the

More than 1.4m people arrived in Bahrain last year for tourism or recreation - 75 per cent of them from neighbouring Arab countries

equally impressive new museum on the emir's north coast.

The company also helped establish the island's first beach club at Al Bander, which gathers an excellent fish restaurant, bars, holiday apartments, a swimming pool and tennis courts round a small man-made cove.

But the Al Bander development, to be followed shortly by the opening of a new Meridien resort hotel - the island's first such - on a spit of land off Bahrain's northern shore, points up some of the limitations the island faces in promoting itself, as it is also seeking

by private villas and the dagger-tip south coast embraces the island's main airbase and is thus firmly out of bounds.

The government hopes, nevertheless, that the Meridien and Al Bander will create what one official calls a "small critical mass" to pump-prime further private sector investment into developing upmarket tourist features. One hope is that the island's five five-star hotels will loosen out of being purely business hotels into providing a bit more tourist fun.

But in aiming further upmarket and away from purely causeway-fed tourism, Bahrain suffers badly from

comparison with Dubai, its go-getting United Arab Emirates rival further down the Gulf.

Dubai's aggressive bid for the same tourist market is already supported by three large resort hotels, one grassy golf course, with another on the way, long stretches of sandy beach and, most important, by something in the region of 10 times Bahrain's oil revenues with which to invest further in tourist attractions. A large theme park, for instance, is already well into planning.

Bahrain's hope is that visitors will include the island as one stop on a regional Gulf tour - though at present, inter-Gulf co-operation on tourism is as fraught with rivalry as other areas of regional economic endeavour. Nevertheless, the island's promoters have persuaded the South African airline Flitestar to open weekly flights to Bahrain later this year carrying what, for the most part, will be tourist passengers.

In the end, though, it will be the bright lights visible from Saudi Arabia, promising Egyptian and Filipino nightclubs, entertainers, a small feast of Italian, Greek, Arabian, Chinese and Indian restaurants and, of course, the odd glass of Johnnie Walker, which will keep Bahrain's future hotel and catering school graduates busy on a Thursday and Friday evening.

Mark Nicholson

Attempts have been introduced to boost tax revenues, but more direct methods, such as an income tax, are deemed to be politically impossible.

It is hardly surprising that the efficient management of the economy is coming under closer scrutiny, especially by Bahrainis who have been educated abroad. Their comments on the lack of co-ordination between ministries, the allocation of resources, the competence of some senior officials and the dispensation of patronage are a strong counterpoint to the official mood of self-confidence and economic optimism. But even that appears to wear a little thin when conversations turn to the commitment and competence of the younger generation to assume political responsibility.

It should also be remembered that Bahrain is where other Gulf Arabs come to relax. Bars, discotheques, uncensored news, some of the best restaurants in the region and the cabin crews of Gulf Air International give Manama an atmosphere not found anywhere else in the region. Bahrain comes better-prepared than more rigidly controlled societies to accommodate the political changes which eventually will have to be made.

Almoezay, the minister of information, says the government is more disappointed than irritated at Qatar's decision to go alone to the International Court of Justice rather than to make a joint application - as had been agreed by the two countries. He adds that there may be a need to look at the entire border between the countries - a reminder, perhaps, that historically Bahrain has laid claim to Zubara, part of mainland Qatar. Bahrain's renewed plea for a joint approach to the international court was again rejected by the Gulf policeman.

Sheikh Isa bin Sulman al-Khalifa, the prime minister, he expresses caution

development which will be interpreted differently in various capitals, but it broadly represents Bahrain's frustration at its inability to plan a more secure economic future, and its sensitivity to continuing claims to its territory. As the US State Department was at all surprised by Bahrain's more flexible attitude towards Bagdad, it may be because Washington has yet fully to appreciate the longer-term consequences and responsibilities of having demonstrated so emphatically its capacity to act as the Gulf policeman.

Sheikh Isa bin Sulman al-Khalifa, the Emir, rarely misses an opportunity when in the presence of Britons to express both his appreciation for the British government's military contribution during the Gulf War and his wish to see London playing a more vigorous and visible role in the region.

It is a message heard elsewhere in the Gulf, and it has a greater emphasis now that Washington's influence is so much less qualified throughout the Middle East. Keeping a sense of balance can apply almost as much to friends as it does to enemies.

Roger Matthews

FOREIGN POLICY

Tensions below the surface



Sheikh Hamad bin Isa al-Khalifa, Crown Prince and Commander-in-Chief of the Bahrain Defence Force.

years later, Iranian designs on Bahrain re-emerged as part of the revolutionary fervour orchestrated by Ayatollah Khomeini. Some Manama residents sense in the present Iranian ambassador an extension of that proprietorial attitude.

Qatar is also pursuing its

claim to part of Bahrain, while

seeking to improve relations

with Tehran. Such a rapprochement can be seen as an

entirely sensible move by Doha

- given that Tehran also has

access to the huge offshore

North Field structure, containing

one of the world's largest

gas fields. However, several

Arab commentators have

already sounded the alarm,

warning Qatar of "opening a

door to Tehran that it would

not later be able to close."

They have also speculated that

Qatar is using its closer ties

with Iran as a way of increasing

pressure on Bahrain.

Officially, little of this breaks

the surface. Statements by

Bahrain are couched in conciliatory language; Mr Tariq

Almoezay, the minister of information, says the government is more disappointed than irritated at Qatar's decision to go alone to the International Court of Justice rather than to make a joint application - as had been agreed by the two countries. He adds that there may be a need to look at the entire border between the countries - a reminder, perhaps, that historically Bahrain has laid claim to Zubara, part of mainland Qatar. Bahrain's renewed plea for a joint approach to the international court was again rejected by the Gulf policeman.

Qatar is seeking closer ties with Iran while still claiming part of Bahrain.

Qatar at the beginning of this month. Foreign diplomats in Bahrain are confident that the argument can be resolved amicably. But they recall that in 1986 the two sides came close to blows, when the Qatari navy seized foreign workers constructing a coastguard station for Bahrain.

Bahrain's call for better relations with Iraq is officially placed within the same broad context of its desire for greater Gulf harmony. It is a policy

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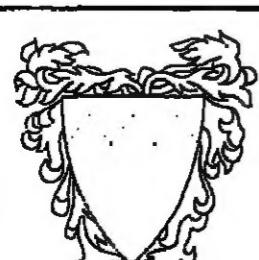
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